

Shipping

Shipping Corp's Julian for Forum Line board

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Julian, a long-time friend of prime Minister Rob Muldoon, was appointed to the board of the Shipping Corporation last year.

Early this year, when Sir Tom Skinner, who had been acting chairman since the retirement of Sir John Ormond, was confirmed as chairman, Julian was appointed deputy chairman by the Government, ahead of two foundation directors, J R Madden and Ian Mackay, both experienced businessmen.

Julian is tipped to become chairman of the corporation if Sir Tom pulls out next year when he reaches the official retirement age.

The Government decision to replace Shea with Julian has to be approved by the South Pacific Regional Shipping Council. It is considered unlikely that a member government's appointment would be challenged.

The chairman of the Forum Line until October 1 was Norman Slade, then the Western Samoan Attorney-General.

Slade acted as chairman in Slade's absence. After Slade's resignation took effect on October 1, Shea was chosen as acting chairman by a poll among the other four directors. This was confirmed at a meeting on October 29, when it was decided to hold a formal election for a new chairman at the next board meeting in February.

Slade has since resigned as Attorney-General in Samoa. Varying reports have said he planned to practice as a lawyer in Samoa or in New Zealand.

The Western Samoan Government has denied Slade's resignation was for political reasons.



Rob Muldoon... no financial interest



Malcolm Fraser... old programme source



Sir Tom Skinner... acting chairman

The Pacific Forum Line was formed in 1977 by 10 member countries: New Zealand, Western Samoa, Nauru, Papua New Guinea, Tonga, the Solomon Islands, Cook Islands, Fiji, Tuvalu and Kiribati. Australia, Nine and Vanuatu are associate members.

Only five member countries are represented on the directorate: New Zealand, Western Samoa, Nauru, Papua New Guinea and Tonga.

The line was established to service and develop trade around the South Pacific.

It has three ships, but lost \$3.5 million in 1979 and is heading for a \$6 million loss in this current calendar year.

This loss and how it would be paid for was the subject of a celebrated argument between Muldoon and Australian Prime Minister Malcolm Fraser during the Prime Ministers' conference in New Delhi earlier this year.

Fraser wanted the money to come from Australia's Pacific aid programme grants and Muldoon and other Pacific Island leaders wanted special support aside from aid programmes.

The company's assets at liabilities cost the Government \$700,000.

The Labour Party was not happy about the arrangement. Questions were asked in the House about equipment that went missing from the ship when it was taken over by Shipping Corporation, and receiving radio equipment.

Legal proceedings were threatened and the equipment returned.

The ownership of the line was obscured by the fact that there were two Cook Island Shipping Companies, registered in Rarotonga and the other in Auckland.

At one time, Julian himself was involved in both. The one which owned the Lorena and was subsequently bought by the New Zealand Government was registered in the Cook Islands.

The second company was incorporated in Auckland in 1969, with a capital of \$200,000, the shareholders being Ram Julian (195 shares) and Fred Mills (five shares).

Until 1974, half the shares were owned by Silk and Boyd Ltd, of Rarotonga, a health subsidised inter-island service operating out of Rarotonga.

This latest Government appointment for Julian is likely to lead to renewed charges that he has gained too many favours from the present National administration.

When he was appointed to the Council for Recreation and Sport in 1977, Labour's Eddie Isbey fulminated that it was blatant patronage.

President of the NZ Yachting Federation for six years, Julian did not actually lead the Government-urged boycott of the Moscow Games earlier this year because he was no longer in office, but told NZBR "I had a representative and he did what I told him."

Julian is aggressively loyal to his old friend, Muldoon, and says he will not hear a word spoken about him, but mainly because of the office he holds. "I am an admirer of the Prime Minister and, yes, I can say I'm a friend," he told NZBR.

If he heard people saying "Muldoon in his presence, he would ask them to desist, just as he did when Norman Kirk was Prime Minister," although I didn't have much time for the man."

Muldoon was accountant to Harry's father and a trustee of the Julian Family Trust. Muldoon's accountancy firm acted for all the Julian companies.

According to Company records, Muldoon (Julian's friend) held a majority holding in Julian Holdings until 1972, when his shares were passed over to the ownership of his son, Mr Mills (Muldoon's son-in-law) and Harry's sole director.

The other half of the Cook Islands Shipping Corp was owned by the Cook Government Property Corporation.

The Julian Holdings shareholding was bought out by the Cook Islands Government.

Albert Henry decided to withdraw the Lorena service in 1974 because it was losing between \$200 and \$400,000 a voyage, and the ship was threatening to founder.

Shortly afterwards, the Department of Marine and Island Affairs took over the shares of Cook Island Shipping Corporation so the Shipping Corporation could run the ship on its behalf.

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Liquor industry giants brew deal to reshape distribution

by Warren Berryman

THREE liquor industry giants — one British, one Australian, one New Zealand-owned — are completing a deal that will change the face of the Australian and New Zealand liquor distribution systems.

The deal — which involves the sale of the Challenge Corporation's liquor outlets — will create a new export industry for New Zealand con-

plete with a ready-made market.

First, Tuihey's-Castlemaine Ltd of Australia, International Distillers and Vinters Ltd of Britain, and New Zealand Wine and Spirits will form — in equal partnership — Tasman Wines and Spirits (NZ) Ltd with \$900,000 paid-up capital.

This company, to be formed on March 1, will borrow \$1.2

million from each of its three shareholders and \$2 million from New Zealand lenders.

Tasman then will buy all the shares in Wrightson Wines and Spirits Ltd from its parent company, the Challenge Corporation.

The price for Wrightson's 18 liquor outlets is about \$7 million.

The takeover has been granted Overseas Investment Commission approval.

Wrightson's outlets, mainly in country towns, have about 6 per cent share of the retail liquor trade.

New Zealand Wines and Spirits has about 33 per cent of the wholesale trade and 15 per cent share of the retail trade.

The Wrightson outlets will be managed by Tasman as a separate company.

No redundancies are expected, but some of Wrightson's senior management people will return to Challenge.

Tasman Wines and Spirits is

expected to turn over more than \$20 million a year.

Return on capital is expected to be about 14 per cent and the cost of borrowings between 14 and 16 per cent.

While wine and beer exporters have to fight to establish a brand awareness in export markets, NZWS would be producing well known and established brands for established markets supported by multinational marketing and advertising expertise.

The second stage of the deal will see the establishment of an Australian national distribution company controlled by Tuihey's-Castlemaine, NZWS and IDV together with the Tasman distribution company here, to cement a common interest among the big three.

IDV's Summott and Gilbey's, compounding operation in Australia is apparently unprofitable. Thus it would make sense to source the alcohol from New Zealand.

Export incentives sweetened the deal for Tia Maria, NZWS

there would be the added sweetener of export incentives. The availability of cheaper whey-based alcohol would make the deal even more attractive.

On the other hand, Australia's bottling, tinning, and packaging costs are far lower than ours.

The tie-up between Tuihey's-Castlemaine, NZWS and IDV may open a new field of trans-Tasman rationalisation.

Last February, NZWS obtained a licence to make the Jamaican coffee liqueur, Tia Maria, in this country from Jamaican essence and white spirit from New Zealand Distilleries (in which NZWS has an interest).

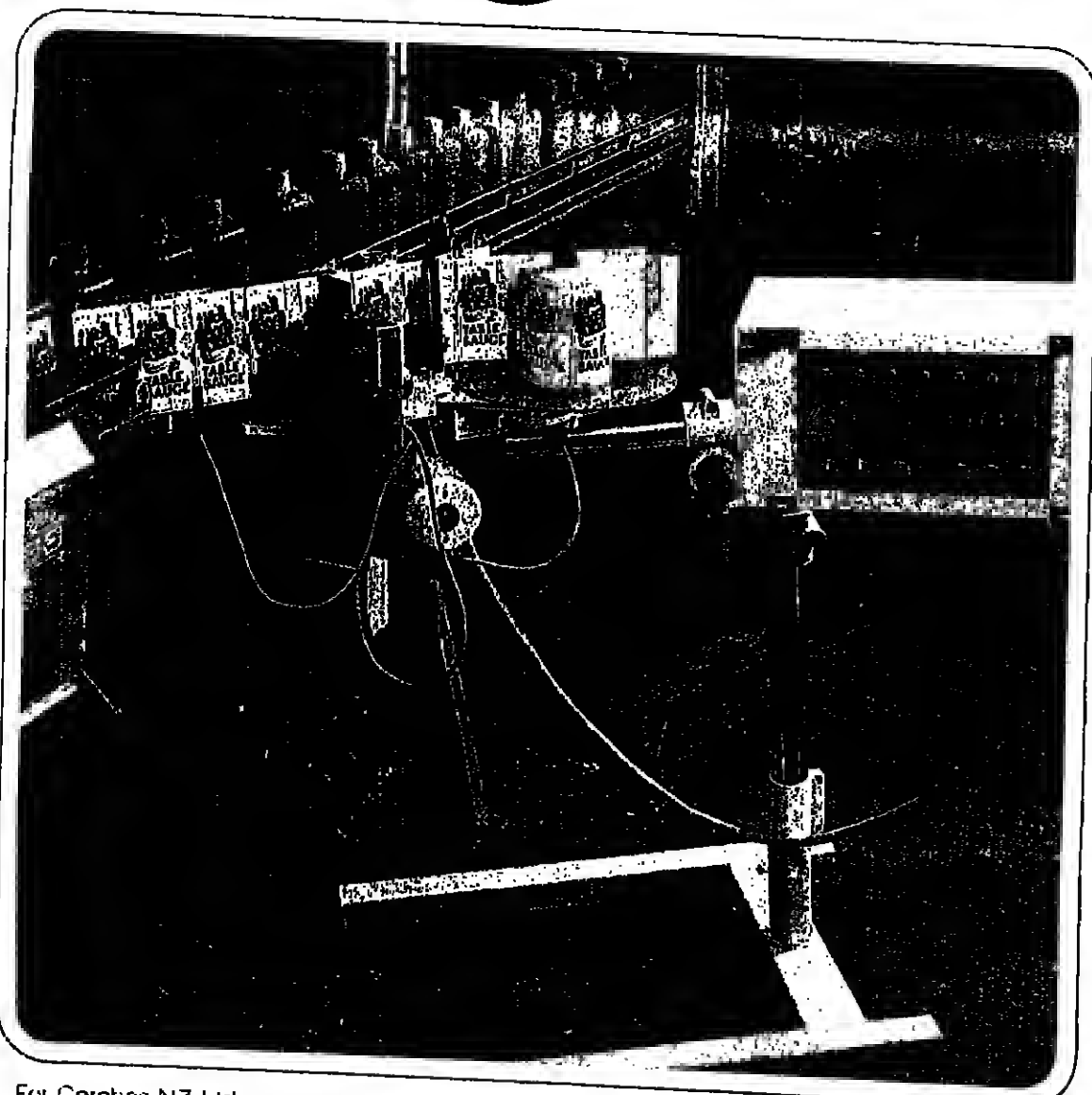
NZWS exports 90 per cent of the Tia Maria it makes. Estimated exports of the drink for the 1981 calendar year are \$5.72 million fob.

Export incentives sweetened the deal for Tia Maria, NZWS

Apart from production costs

Continued on Page 5.

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Continued on Page 20

The week

Budgetary or bribery?

MINI-budget-clection bribery or overdue, unadventurous, moves in the right direction: You choose. Employers are the main beneficiaries with subsidies for creating jobs for school leavers. Income tax cuts were only \$7.27 a week for top income earners, less for most.

Irrigation projects, Taranaki roading, and leave for the Federation of Labour to take a case for a cost of living wage order to the Arbitration Court had been foreshadowed. Small businesses will be able to draw up to \$100,000 cash from a \$10 million fund administered by the DFC. CNG use will be encouraged with a \$200 grant unit to conversion kit suppliers.

COMMONSENSE was the order of the week for the Navy. It will not be getting a new \$230 million frigate, the Cabinet decided, but cheaper ships more suited to patrolling the 200 mile economic zone.

ANOTHER Auckland freezing works is under the threat of closure. W & R Fletcher will close its Westfield plant with the loss of 1100 jobs unless industrial and effluent disposal problems can be cheaply resolved.

And freezing workers across the northern half of the North Island enforced a lock out ban on meat and dairy exports in protest at the closing of Afico's Southdown works.

THE United States Food and Drug Administration placed a temporary ban on green tipped mussel extract imports, subject to lengthy reclassification tests. Arthritis sufferers and the growing mussel industry are the immediate casualties.

PETRALGAS (Alberta Gas and Petrocorp) failed its environmental impact audit on its Taranaki methanol plant. The Commission wants stricter pollution controls.

THE Thomas Commission of Inquiry report was released in

its entirety despite Police Association pleas to protect those officers who were strongly criticised.

FRANCE is maintaining its objection to 1981 EEC quota for Anchor butter, at least unless the amount is substantially sliced below the recommended 90,000 tonnes. As it now stands, no New Zealand butter can technically enter Europe after January 1.

THE example of a strong stand by the four main vehicle assemblers in Wellington to halt a strike by 19 NZ Motor Corporation employees was not followed by the oil companies in dispute with stormmen and tanker drivers over redundancies. On-again off-again stoppages disrupted fuel supplies, particularly in Canterbury.

The business week

Alloy Steel (NZ): unaudited profit for the six months ended September 30 was \$17,264 (last

year \$15,824).

APA Holdings Ltd: unaudited profit for the 11 months ended August 31 was \$1,284,000 (last year \$1,114,000). A final dividend of 5.5c will be paid on December 19.

Australian Consolidated Industries Ltd: unaudited profit for the six months ended September 28 was \$17.9 million (last year \$16.9 million). Profits earned by Alex Harvey Industries Ltd were well below those for last year. An interim dividend of 7.5c will be paid on February 27.

Bank of New South Wales: net profit for the year to September 30 was \$128,159,000 (last year \$107,198,000). A final dividend of 10c will be paid on January 30.

Canterbury Timber Products Ltd: unaudited profit for the six months ended September 30 was \$1,339,982 (last year \$1,562,999). Export sales are up 64 per cent. An interim dividend of 10c will be paid on December 9.

Center Holt Holdings Ltd: unaudited profit for the six months ended September 30 was \$4,166,000 (last year \$2,872,000). An interim dividend of 10 per cent is payable on December 18.

CSR Ltd: Net profit for the six months ended September 30 was \$70,152,000 (last year \$51,183,000). An interim dividend of 9 per cent will be paid on December 17.

T & J Edmonds Ltd: unaudited net profit for the six months ended September 30 was \$310,057 (last year \$503,113). An interim dividend of 9c will be paid on December 12.

Freightways Holdings Ltd: unaudited net profit for the six months ended September 30 was \$153,500 (last year \$138,000). An interim dividend of 4.5c is payable on December 31.

John Edmund Holdings Ltd: unaudited net profit for the six months ended September 30 was \$431,000 (last year \$400,000). An interim dividend of 7 per cent will be paid on December 12.

Lusteroid Plastics Ltd: unaudited net profit for the six months ended September 30 was \$252,000 (last year \$208,000). An interim dividend of 5 cents will be paid on December 18.

Manawatu Knitting Mills Ltd: unaudited profit for the year to October 14 was \$112,000 (last year \$255,500). A final dividend of 5.5c - 11 per cent - will be paid on February 18.

NZ Forest Products Ltd will resume log exports next year. NZ Land Securities Ltd: audited loss for the year to June 30 was \$105,581 (last year \$668,711 loss). The company is now trading profitably.

Otago Press and Produce Ltd: unaudited profit for the six months ended September 30 was \$148,862 (last year \$136,225). An interim dividend of 5c will be paid on December 16.

Prestige/Holeproof (NZ) Ltd's capital reconstruction has been approved by the High Court. Share capital will be reduced from \$7,440,000, 50 cent shares to \$3 million.

Repeo Ltd will raise \$15 million through the issue of \$1 cumulative redeemable preference shares paying 9.4 per cent.

Suckling Industries Ltd: unaudited net profit for the six months ended September 19

was \$152,939 (last year \$272,183). An interim dividend of 7c will be paid on December 12.

Tasman Pulp and Paper Co Ltd: unaudited net profit for the six months ended September 30 was \$269,500 (last year \$9 million). An interim dividend of 10c will be paid on December 9.

Tynlars Drycleaning and Laundry Services Ltd: unaudited net profit for the six months ended September 30 was \$44,200 (last year \$35,000). An interim dividend of 1c is payable on December 19.

UFB Industries Ltd: unaudited net profit for the six months ended September 30 was \$2,703,129. A final dividend of 8c will be paid on February 19.

The Examiner of Commercial Practices has approved F&C Corporation Ltd takeover of E Watson & Co Ltd. F&C now has received acceptance from holders of 79 per cent of Watson shares.

A J White Ltd has been removed from the S&P change listings following takeover by H W Smith Ltd.

Exchange rates

As at November 27/80

Britain	1.4
United States	1.3
Canada	11.1
Australia	11.1
Fiji	1.2
Austria	1.2
Belgium	1.2
China	14.1
Denmark	5.1
France	4.5
Greece	11.1
Hong Kong	7.1
India	3.1
Ireland	8.1
Italy	2.1
Japan	2.1
Malaysia	1.1
Netherlands	1.1
New Caledonia & Tahiti	4.1
Norway	9.1
Pakistan	4.1
Portugal	1.1
Singapore	1.1
South Africa	1.1
Spain	1.1
Sweden	4.1
Switzerland	1.1
West Germany	1.1
Western Samoa	1.1

The Week Ahead

COMMISSION of Inquiry into freight forwarding due to report this week.

WEDNESDAY: Printing and Packaging Corporation AGM in Christchurch.

FRIDAY: NZ Farmers Corp AGM in Christchurch.

Time expert returns

INTERNATIONAL time management expert Dr Alec Mackenzie is making another trip to New Zealand next year.

Mackenzie's return seminar session is being sponsored by National Business Review in association with Qantas and Paddy Guilford Insurances.

Mackenzie, a world authority on time management and author of the bestselling *The Time Trap*, a how-to guide to the more productive use of time, was highly popular with senior company management when he lectured in New Zealand earlier this year.

On his return trip he will undertake public seminars in

Auckland and Wellington as several private seminars for large companies who want help improve the efficiency of their key executives.

National Business Review has agreed to jointly sponsor Mackenzie's return tour because, as Fourth Block managing director Reg Blackfield says, "Mackenzie provides a very important management education function."

"I was very impressed with the day I spent in Mackenzie's company and think the tour is a great deal to offer New Zealand management, which is why we handle time management."

The week

Small firms need cash to benefit from big deals

by Allan Parker

THE Prime Minister's mini-budget fillip to the small business sector last week reflects growing concern about the future of many small companies that have the potential - but

not the cash - to expand alongside the "think big" projects.

Politically, too, the venture finance facility and job creation programme are designed to deflect criticism that the

Government is concentrating too heavily on the major energy-based development projects at the expense of the small business community.

While those big projects will provide some specialised em-

ployment, there is a growing fear about job prospects for the estimated 250,000 school-leavers who will enter the employment market in the next decade. Without a healthy and growing small business sector, many of these will start their working lives on the dole.

The big projects will have a drag-along effect - "the multiplier factor", according to DFC general manager John Hunn - for the small business sector. But small firms still need injections of capital and expanded work force to take full advantage of any downstream potential from the major projects.

Hunn, whose Small Business Development Division will run both new schemes, estimates that up to 20 per cent of Small Business Agency clients have difficulty raising finance - as predicted by pre-establishment surveys.

The initial \$10 million, he told *NBR*, will allow these and other small businesses to enlarge their equity base and thus expand borrowing capabilities.

Business has been brisk for the SBA in recent months. The corporation's just-released interim report for the six months ended September 30 records more than 5000 small business inquiries.

The new venture capital facility will have a ceiling of \$100,000 a year for each company or group of companies. Hunn predicts most investment will average considerably less.

Demand is difficult to estimate but the corporation is reckoning it will take about two years to fully utilise the fund.

While the cash will be channelled only to companies with export-earning, import-saving or technology-based abilities, it is hoped a general

stimulus in this area will boost along other sectors of the small business community - again, the multiplier factor.

The corporation believes that the new scheme will continue the undoubted successes of the SBA since it opened shop in 1978.

Initial SBA manager and now head of the revamped Small Business Development Division, Murray Smith, has just returned from an international small business gathering in Melbourne confident that the New Zealand operation is "at least comparable and in many ways superior" to similar operations abroad.

"Nothing that I heard in Melbourne makes me feel a need to revamp our services here," he said.

The DFC therefore finds recent criticism of its small business service hard to swallow.

Ex-mayor remains in firing line

by Warren Berryman

CONTROVERSIAL ex-mayor of Waitaitia City, Ian McHardy, decided not to run for office last local body election because he claimed his fellow councillors and the press were picking on him.

But even out of office, he is likely to be in for a few more shots from disgruntled Waitaitians.

The new team of councillors have cancelled some \$5 million worth of McHardy's proposed expenditure, repudiated property deals initiated in the last days of McHardy's reign, and brought into question some of the outstanding city accounts.

Also the Auckland District Law Society is still interested in the manner in which McHardy (wearing the hat of lawyer and property dealer - not mayor) signed and witnessed legal documents lodged at the Land Transfer Office.

In 1976 McHardy executed a memorandum of transfer for a house. The signatures on the document read I G and B P Nixon as transferees and I G McHardy as witness.

In fact I G Nixon and B P Nixon were Ian McHardy and a woman friend. Thus it seemed that McHardy witnessed his own signature.

After investigating the case, the Law Society sent a letter to a Waitaitia City councillor saying the society was satisfied that the signatures were those of Ian McHardy.

The society did not say what action would follow.

It appears to be legal to buy and sell property in an assumed name so long as the intent is not to defraud a third party. Witnessing one's own signature is a matter which the Law Society is looking into and may resolve at its council meeting this month.

Lodging this sort of document at the Land Transfer Office is another matter beyond the Law Society's scope.

The attitude at the society seems to be "so he bought and sold property in an assumed name and witnessed his own signature. So what? Who lost by it?"

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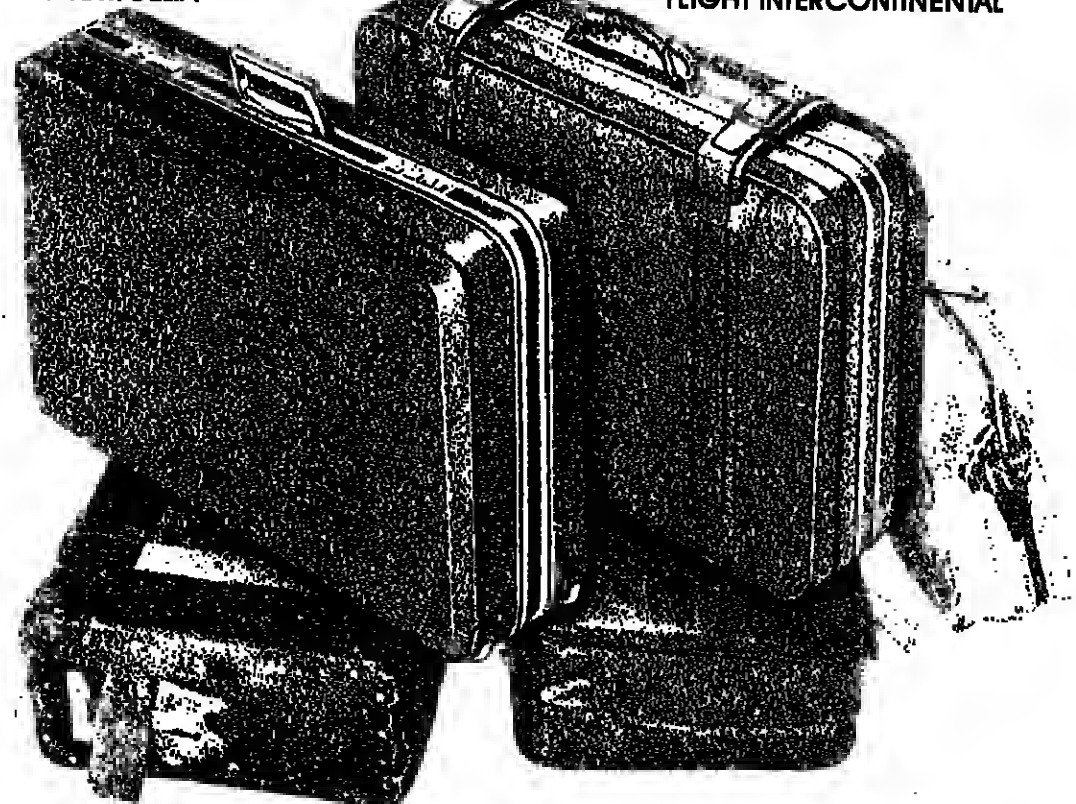
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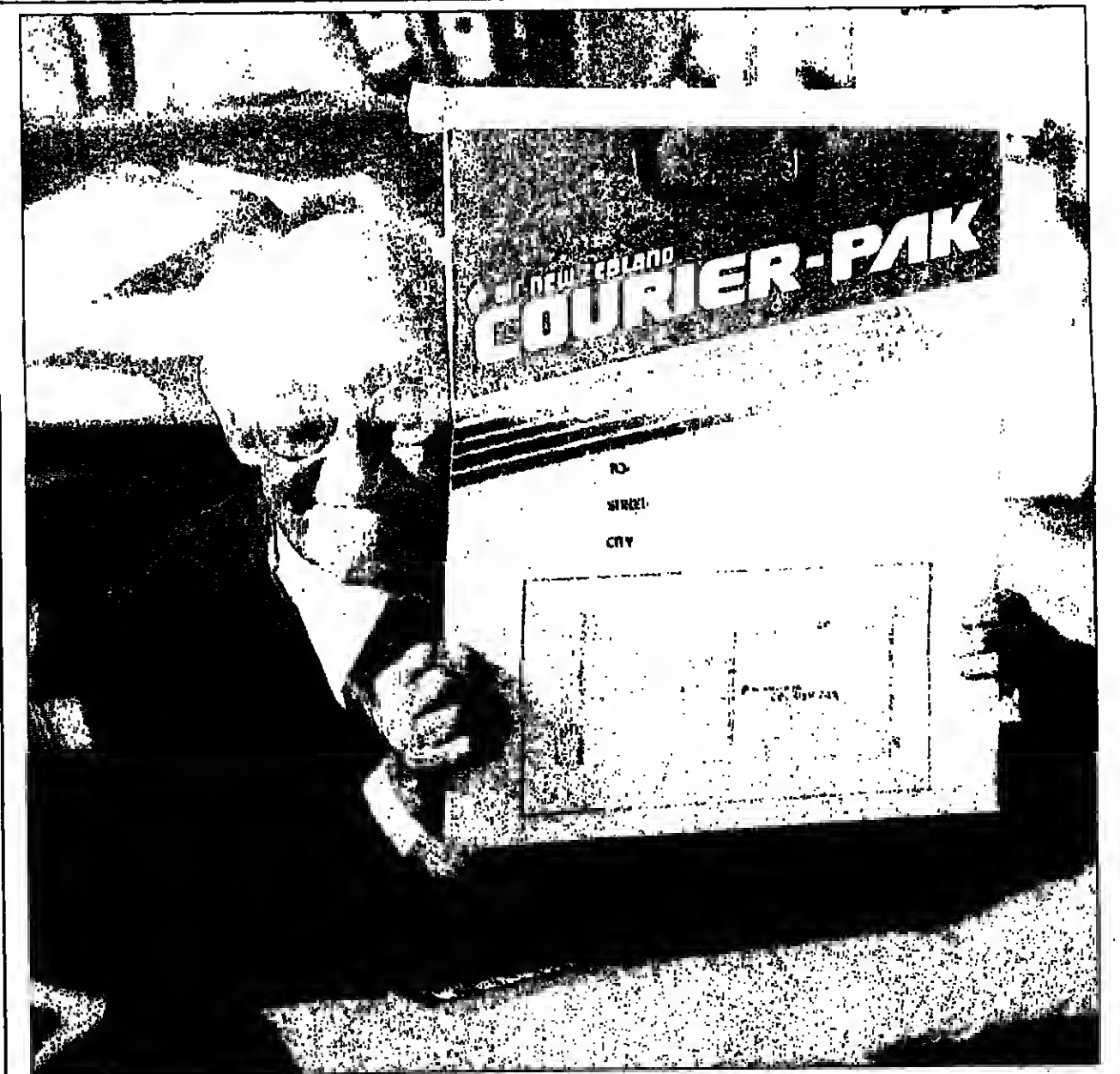
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**AIR NEW ZEALAND
COURIER-PAK**

Editorial

THE Meat Board seems to be arrogantly out of step with farmers, local freezing companies and the Government in discouraging competition on the high seas. Contrary to the wishes of these interested parties, it has declined approved carrier status to the rate-cutting ABC Container Line (used to the State-owned Shipping Corporation) for United States-bound meat exports.

Federated Farmers had previously indicated to the board that it wanted to see an element of competition in the shipping of primary produce. The ABC application for approved carrier status was supported by a number of meat companies (among them, Waitaki NZR, Canterbury Frozen Meat, Primary Producers Co-op Society and Dawn Meat). But most significantly, the Government had made clear its desire to foster competition.

Tourism Minister Warren Cooper (standing in for Transport's Colin McLauchlin) spelled out the Government's position to the Institute of Transport conference the other day. He said Reserve Bank figures indicated that in relation to the value of exports from New Zealand, the percentage spent on overseas freight costs had more than doubled in the past six years. "I would go so far as to say that some measure of competition is ultimately the most effective way of regulating freight rates," the Minister declared. "While not doubting that the boards are sincerely trying to serve the national interest, I would ask whether a certain degree of conservatism may be present in their attitudes which prevents them from clearly perceiving some of the alternatives available in transport today."

Cooper then announced that, in the new year, the Ministry of Transport would be undertaking a major policy review of shipping. "This will provide a clear picture of the role of government in shipping and show the areas where closer liaison between the public and private sectors is desirable," he said.

Meat Board chairman Adam Begg had other ideas: "I think it displays a lack of knowledge of what has actually happened in shipping in recent years." And as if to demonstrate that his board knew better, the very next day it scuttled ABC's meat-carrying ambitions. Not for the first time, either.

Tevl Rosenfeld came to New Zealand in May last year to announce the extension of ABC services to this country after the company's success in picking up business in Australia. Since then the Meat and Wool Boards have turned down seven applications by the line to ship meat and wool. Ironically, they have then exploited ABC's competitive rates offer to secure lower rate increases from the conference lines.

There is an over-tonnage in world shipping today. Non-conference freight bargains — as the Australians have found — enable good deals to be struck. Our manufacturers have certainly found this out. The freight rate war between Ace Lines and the conference in 1978 brought freight rates for manufactured products down in some cases by as much as 50 per cent.

The Wool Board benefited from Ace's competitive spirit, too. It used Ace's offer of low freight rates to hold down the level of freight increases demanded by the cartel, then prohibited wool exporters from using Ace. That exercise in corporatism is now the

subject of investigatory action by the American anti-trust division of the Justice Department.

The conference have served New Zealand well over the years, providing regular and reliable service. But the pattern of trade is changing. The United States has displaced Britain as our major customer. We are making big export shipments to countries like Iran and Iraq (and those exports don't go on conference ships). Inevitably, our trade will be increasingly concentrated in the countries of the Pacific Basin — the ASEAN nations, Japan, Korea, China, the USSR, the USA, Latin America. Thus it is prudent to contemplate what will happen to manufacturers with established markets in Europe when the producer board trade in that part of the world becomes insufficient to provide the same regular shipping service.

A more immediate question is whether the producer boards should have the power to dictate to meat and wool exporters, telling them with whom they must ship. McLauchlin credits the boards with acting in the national interest, but farmers may wonder when shipping policy is determined by the Meat Exporters Council and the Wool Board, both heavily influenced by overseas interests. They may readily suspect that the producer boards thus give undue consideration to the interests of foreign shipping, wool and meat companies.

But the manufacturers have a not insignificant stake in all this. Manufactured cargo loads on the back of producer board cargo, which means that producer board decisions affect manufactured as well as primary ex-

ports. Without the bulk cargoes supplied by the producer boards, there would not be enough cargo to justify regular shipping services. Without the manufactured cargoes paying higher rates than primary cargoes, producer boards would have to pay higher freight rates until perhaps price their commodities out of foreign markets. Thus in shipping, the interests of manufacturers and primary producers are interdependent.

The threat to manufacturers is that the producer boards can drive a shipping line out of the trade, as they did with the Ace Lines. Just as Ace had been doing, ABC has been carrying manufactured cargo at cheaper rates than those charged by the cartel. Those rates can make or break a manufacturer's export efforts. If the Meat and Wool Boards drive ABC from New Zealand, the manufacturers will be the biggest losers.

But manufacturers have no say in the flow of bulk cargo out of the country. The producer boards sit down with the cartels to negotiate freight rates; thus they effectively dictate the shape of the country's shipping services. Now that manufacturers earn some 20 per cent of the country's foreign exchange through their exports, they should be allowed representation at the negotiating table. Too much is at stake for us to leave our lifeline to world markets in the hands of producer boards which are showing signs of being out of touch not only with the needs of the farmers who they supposedly serve but also with the wider interests of a nation which is throwing everything into its overseas trade.

— Bob Ellis

Without word of a lie

Caught out in the Khyber Pass

IF Comet International ever existed — and police inquiries suggest it did not — it could be doing a thriving business but for its address.

Comet International is the name on top of invoices from a bogus trade directory company which recently flooded British business firms.

The Association of British Chambers of Commerce, Scotland Yard and the New Zealand Government Office in London all received complaints about the invoices, which appeared to contravene legislation on unsolicited goods and services in Britain and New Zealand.

The scheme is being investigated by the New Zealand Fraud Squad and the Chamber of Commerce has been looking into the affair and has warned people against paying the bills.

And why did British recipients of the invoices so quickly become suspicious? The address given by "Comet International" apparently was the fly in this particular ointment. According to a British Chamber of Commerce official: "It seems many people were alerted by the fact the company said it came from the Khyber Pass."

Some legal advice for the PM

A WELLINGTON lawyer — musing on the royal commission's recommendation to pay compensation to Arthur Allan Thomas and on the upshot of the Marginal Lands Board affair — spells out some succinct advice to Rob Muldoon: The Government should buy Long Gully from the Fitzgeralds and give it to Thomas.

How not to court a prosecution

THE closure of country court-houses may save a few dollars in terms of the Justice Department budget but the costs to the community generally — the time, travel and so on when citizens must go



Brockie's view

to another centre — seem not to have been officialdom's concern.

There seem to be some interesting social costs, too. In the wake of the closure of one country court-house, judges, witnesses, and the rest must travel a fair distance to the nearest city to see justice done.

Recently, we hear, a resident of the district was stopped by a traffic officer with good cause to be suspicious and — when his car door was opened — tumbled on to the road.

The inevitable breath test gave an equally in-

evitable positive result. The next stage in the prosecutory procedure was not so easy.

The local doctor wouldn't come to undertake the statutory blood test; his reasoning was that if the motorist faced charges as a result of that test, then he would have to take time off from the surgery to travel to the city to testify. The hassle was something he would prefer to avoid.

Result: one obviously drunk in charge got off scot free.

Painting a way out of the red

FINANCIALLY troubled Air New Zealand might have overlooked this idea, however, as it brushes up on cost-cutting techniques.

British Airlines has dropped the word "airways" from its logo. Retention of the word from its aircraft, ground-based vehicles and other equipment, says airline chief executive Roy Waits, will save BA about \$469,950 a year in paint.

Accident compensation: taking a broad view

by Derek Quigley

LITTLE criticism of the changes proposed by the Cabinet caucus committee, which reviewed accident compensation, has any foundation. In fact much of what has been said is completely erroneous.

The Accident Compensation Act came into force in 1974 and generally has worked well. It represents a vast improvement on the previous combination of workers compensation, common law and social welfare. For instance under workers compensation, weekly payments ran for only six years from the time of an accident, while under common law, lump sum payments which depended on proving someone else was at fault, were virtually won on a lottery basis and were often paid out years after the injury.

The committee set out on its task of reviewing the Act with no preconceived views, nor with the intention of cutting costs or reducing benefits. We were, however, aware that there had been numerous calls for improvements. Among the advocates for change was none other than Geoffrey Palmer MP, who had publicly stated that there were 20 to 30 quite serious problems of a detailed nature in need of attention.

The review committee was no ordinary caucus committee, but a group of Cabinet and backbench Members of Parliament who were appointed because of their areas of special expertise. Four of the committee were members of Cabinet and two, Sir and Lady Gair, had had previous experience with accident compensation. Both Gair and Holland have over the past 10 or so years been members of virtually every select committee and caucus committee on this topic.

During the course of considering approximately 200 separate submissions, the committee was conscious of issues in two broad areas — principles and practicalities. Our starting point was the underlying principles of the original Woodhouse report, and we endeavored to recommend changes to bring the scheme more into line with that original concept. The practical application of the scheme was another matter, and in this area we recommended changes to streamline procedures, enhance efficiency, reduce abuses and re-emphasize those original guiding principles.

Few of those who have criticized the review committee's recommendations have been concerned with the practical application of accident compensation. Indeed, most have concentrated on the scheme in an ideological or impractical sense. However, as a committee charged with the responsibility of the review, we had to be concerned with practicalities and the actual current application of the Act. With this in mind we were aware that some special interest groups were bound to criticize, but we would have been irresponsible if we had only concentrated on the practically popular areas.

The proposed changes will bring substantial improvements. We have recommended that the top level structure of the present commission be changed in favour of a board of directors responsible for policy, and a managing director responsible for day-to-day administration. This will allow a broad-based input from a diverse range of skilled and independent directors and will allow for a clear differentiation between policy and administration. Not surprisingly, there has been little criticism of this change.

We have also recommended improvements for the self-employed. At present (because compensation is based on net income) this group can be seriously disadvantaged by, for example, tax incentives which reduce net income. The change will allow self-employed the option of a minimum coverage for 13 weeks without need to prove loss of income, or the existing cover under this Act.

Although the new option will not overcome all of the problems faced by the self-employed, the change will be distinctly helpful. Typically, the critics of the review committee's recommendations have ignored this improvement.

The proposal to exclude, under certain circumstances, criminals from lump sum and earnings-related compensation has attracted considerable favourable public comment. The committee responded to the clear public demand for such exclusions but in doing so was acutely aware of the potential problems.

However, the committee believed that evidence of possible problems was not enough in itself to preclude a recommendation for change. It noted, with some surprise, that the Law Society appears to favour exclusion only where crimes of violence are involved. If this does represent Law Society thinking, then that thinking is naive because exclusion should be based on involvement in the commission of a serious crime, whether there is violence or not. As injury by accident is being compensated, the burglar who is injured is surely as deserving of exclusion as the person convicted of aggravated robbery.

A further recommended change involved a reduction in the level of first week earnings-related compensation for work accidents from 100 per cent to 80 per cent. During deliberations, the committee became aware of the problems at this level. For example, since the inception of accident compensation reported injuries in the freezing industry for the period one to seven days have increased by 224 per cent. By contrast numbers employed in the industry have increased by only 11 per cent. This shows that something is wrong.

We noted the following comment in Sir Arnold Nordmeyer's 1977 report on accidents and occupational diseases in the freezing industry: "In fixing the rate of compensation at 100 per cent of the earnings of the worker... Parliament had ensured that the scheme would inevitably lead to widespread abuse... 100 per cent compensation puts too great a strain on human nature."

Sir Arnold concluded: "It is possible that Parliament may not feel that the Act needs alteration — if the freezing industry and its various unions can succeed by common resolve and united action in eliminating those abuses rightly causing so much public concern. I shall watch with some hope for a considerable reduction in the number of accidents reported and in the number of compensation claims submitted."

Unfortunately the abuses have continued and change has become necessary.

Tied to the change in the level of first week compensation is the further recommendation that the employer be directly liable for earnings-related compensation (where the accident is work-related) for a total of two weeks. This extension from one to two weeks is designed to improve workplace safety by directing the burden of accident costs to individual employers.

This should encourage a more responsible attitude among those employers with an insurmountable accident record by making them directly accountable to their employees in respect of the extra week of incapacity.

Palmer, in his book *Compensation for incapacity*, stated that employers' direct liability in respect of the first week compensation may well be a spur to employment safety. He said: "If the rate was lowered to 80 per cent and the employer obliged to pay for the first month, the financial incentive would be even greater."

The committee also noted that Susan St John's excellent MA thesis, entitled "Cost allocation in the New Zealand Accident Compensation Scheme", also lends support to the theory behind the change. Interestingly, St John does not support a rebate of levies or a penalty scheme as a safety incentive, but rather favours more direct costs to the employer.

An additional advantage of the extension of direct liability is that those employers with good accident records will not be required to subsidise to the same extent as previously those employers with bad accident records.

The proposal to require an accident victim to meet part of the cost of the first two visits to a general medical practitioner has attracted considerable comment. Unfortunately most of the critics do not seem to appreciate that the change only relates to non-work accidents, because those receiving treatment for work accidents will be entitled to claim the amount back from their employer. The maximum amount payable will be \$5 for each of the first two visits, not the \$20 to \$40 a visit suggested by the editor of *Journal of the General Practitioners Society* (October 1980).

While the committee endorses the principle of community responsibility this does not negate some degree of individual responsibility. Accordingly, the committee believes that it is not unreasonable to expect patients to meet part of the cost of non-work-related accident treatment themselves. They do this now in respect of sickness and they did it prior to accident compensation in 1974.

Free treatment at public hospitals will continue to be available but there is no reason to believe that significantly more accident victims will be treated there simply to avoid a small doctor's payment. We were also conscious of the following statement in the original Woodhouse report: "If compensation is provided on a suitably generous basis it seems fair to leave part of the loss with the man himself."

The theory behind the proposal to extend the present waiting period from one week to two weeks before earnings-related compensation is received for non-work accidents is also found in that statement. The concept of community responsibility in this area is now in fact a myth because it simply means employer responsibility. The earners' or work-related part of the scheme is designed to impose variable levies on employers based on workplace accident records, but this is not the case for non-work accidents. A flat rate levy is imposed to fund employees' non-work accidents and bears no relation to the non-work

accident record of a category of employees. Safety incentives are therefore irrelevant. For this reason it would seem reasonable to require some degree of personal responsibility in respect of short-term incapacity arising from leisure time activities.

The issue of lump sum payments has also attracted considerable attention. The committee believes that this is a dual issue. The first relates to the argument about the necessity for lump sum payments if weekly earnings-related compensation and rehabilitation assistance are available. The Woodhouse report stated: "We are left in no doubt that in general lump sum payments are not in the best interest of injured plaintiffs."

Lump sum payments are a carryover from common law, when some injured persons received payments for permanent loss of income, disability, pain, suffering, etc. These payments were dependent on proof of fault and were designed to aid rehabilitation as much as they were designed to compensate for loss of income. Accident compensation replaced the previous system with generous cover for medical costs, earnings loss, and rehabilitation assistance, but there was originally to be no place for lump sum payments.

The scheme was, however, modified before it became law in 1974 and lump sum payments were included. The committee recognises this historical fact and accordingly proposes to retain the provisions for the more serious permanent loss or disability cases and for cosmetic-type disfigurement.

The second part of the lump sum argument relates to the minor losses, disabilities, disfigurements, etc. Almost anything within this definition attracts a lump sum at present, and each decision is open to review and appeal. Consequently considerable time and money is spent on resolving these minor claims. This was not the intention of the Woodhouse Commission and the review committee recognised that clear guidelines needed to be established to (a) differentiate between minor and more serious claims and (b) minimise the opportunity for legal disputes to arise.

The Woodhouse report stated: "The very real

drawn upon any compensation fund results from the many payments for short term and quite minor injuries. Accordingly it is extremely important that the level of compensation for these injuries should not be allowed to rise to a point where the majority of lesser troubles are satisfied at the expense of those whose problems are great."

There are two further relevant points. The first concerns the so-called "social contract" which the Law Society alleges the committee has broken in respect of lump sum payments. The social contract involved in replacing the pre-1974 law with a comprehensive, no fault scheme, was simply to provide fair and just compensation. The contract should be seen as encompassing the whole scheme, not just that part of it relating to lump sums. In fact, the committee's proposed changes in this area will re-emphasise that "fair and just" provision.

The second point relates to the charge that the committee did not adequately consult with the interested parties and in fact kept the Accident Compensation Commission at arm's length. This is strongly disputed. The committee received approximately 200 submissions, consulted with several of the interested parties, and as far as the commission was concerned, met with the commissioners and other members of the commission's staff on numerous occasions. Their advice was keenly sought, and on numerous issues was adopted.

The committee was fully aware that some criticism was inevitable. Most of it has been quite predictable, and not difficult to refute. But a committee charged with the responsibility of reviewing such an important "concept" as the New Zealand Accident Compensation Scheme could not avoid making certain decisions simply because they were likely to be criticised. Informed criticism is healthy and is to be encouraged. However, I would ask those who are still critical to stand back and look at the scheme in its entirety, and to attempt to divorce themselves from the narrow perspective of a sectional interest group.

Derek Quigley is chairman of the Accident Compensation Cabinet Caucus Committee.

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Letters

A dearth of golds

HAVING judged at the Annual Easter Show wine competitions, and been closely involved in the administration for the national wine competitions for some years, I have been in an excellent position to observe the dramatic changes in our wine industry.

Going back, not too many years, a significant proportion of wines, in both competitions, were so faulty that they should never have been entered. The general standard being very mediocre, to say the least, any wines which were clean, not oxidised, having no obvious faults and showing the slightest varietal character and flavour were in line for top awards and often got them. Nor so now.

Happily, over the last decade, with the introduction of modern wine-making techniques, and the emergence of young, enthusiastic, well-trained winemakers, there has been an accelerating improvement in quality in table wines made from classical vinifera grapes, and a constant reduction in wines made from high yielding (but poor wine producing) hybrid grapes.

As quality has improved, so judging has become more critical and every visiting overseas judge after experiencing our competitions has affirmed that they are far more efficiently conducted, and much tougher than most judging in other countries.

This is all part of the answer to those people who wonder

why only four gold medals for the 1980 national wine competitions were awarded.

There were very few wines presented which had obvious winemaking faults and to achieve even a bronze medal, a wine had to be a good example of a sound wine in its particular class. Wines showing "lack of character", "out of class" (that is possibly a good wine, but not having the characteristics of the type of wine it represented) and so on, were down-pointed.

The increase in total wines exhibited has been great and if there is the slightest doubt or controversy about a wine, it is recalled. The week at the Chateau was the hardest I have ever experienced - starting each day at 8.15 am, a short break for lunch, and finishing between 7 pm and 7.30 pm. Various alternatives have been discussed, including using two teams and reduced entries, to avoid this situation next year. Only two or three years ago, there were up to four or five Cabernet Sauvignons made - this year 28.

Similarly, Gewürztraminer has been multiplied from three to 25, and this is the story of Chardonnay (now 21), Chenin Blanc, Pinot Noir and other varieties. Tremendously exciting for the consumer, but creating much greater competition for the wine companies.

Apart from the fact that the 1979 vintage was a poor one (particularly for whites), and thus adversely affecting the wine quality, all this is the reason for fewer top awards.

The fact of the matter is that

the overall quality of table wines has become so good, that to achieve a silver, a wine must be outstanding (some may develop into golds next year), and for a gold, superb. In other words, many bronze award winners are no longer wines to dismiss as rubbish, because a good proportion, until recently could well have been silvers.

Similarly, quite a number of silvers, only a year or two ago, would definitely have won golds. The criteria for each quality plateau have been raised, with judging becoming more and more serious accordingly, so that to win the coveted gold medals, our dedicated winemakers will be under increasing pressure to continuously maintain and improve quality and variety.

I am confident they are more than equal to the challenge.

Stanley L. Harris,
President
Wine and Food Society of
New Zealand (Inc)

Not under investigation

MY company is an importer of predominantly textile machinery and has been in operation for 41 years.

In your October 27 issue you published an article reporting the court cases in which an officer from Trade and Industry, Brian Pound, was accused of issuing special import licences to three importers who have since been prosecuted. Your article then went on to associate our company with "17 other firms" being investigated.

We feel confident you will wish to correct the implied impression that our company was under investigation. To reinforce our request we attach copies of letters solicited from both the Department of Customs and Trade and Industry and signed by the respective Ministers.

Please note that these copy letters are being sent to you simply to prove our point and

we, therefore, not for publication. We look forward to hearing that you will publish a suitable explanation to your article.

Roy A Hunt
Managing Director
Noel P Hunt and Co (NZ)
Limited

WE acknowledge that your company is not - nor ever has been - under investigation as our October 27 article may have inferred. The situation was clarified in a subsequent article, published on November 10. - Editor

Air NZ staff not part of PSA

ONE of the problems of allowing airline public relations consultants to write articles about tourism is that they carry their habits of embroidery of reality with them wherever they go.

Gordon McLauchlan (NBR November 3) attributes Air

New Zealand's inability to shed staff to "the powerful PSA". How this powerful organisation prevents this is not described.

The Public Service Association does not represent staff in Air New Zealand, does not consider "shedding staff" (let's call it adding to unemployment) a solution to Air New Zealand's problems, and does not think too highly of its own role as an employer of an erroneous and partisan article or a newspaper that would carry it.

W E B Tucker
General Secretary
Public Service Association

WE accept that we erred in attributing the inability of Air New Zealand to shed staff to the "powerful PSA". The sentence in question should have referred to a number of powerful unions representing Air New Zealand staff (which, incidentally, seem to be accepting reality with wisdom and restraint). - Editor

Politics

A hint of desperation enters in the blue corner

by Colin James

THE National Party has been thinking up slogans to combat Social Credit. One bumper sticker eagerly thrust into my hands goes: "If Social Credit is the answer, it must have been a silly question."

It is good to see a bit of (albeit undergraduate) humour entering politics. The trade has become altogether too dull.

I've got some bumper stickers of my own. For Jim McLay: "Don't blame me, I voted Talboys." And for the said Talboys: "What, me vote?"

And after Roger Douglas doing it his way... and his way... and his way, how about Derek Quigley: "I did it the only way."

New Zealand politics has not always been devoid of humour. There was quite an effective line in mouse jokes a few years back.

And for around 20 years there used to be the "funny money" label for Social Credit.

Unfortunately for latter day "funny money" scoundrels, however, Social Credit now has sufficient political credibility to boomarang that label with: "The only funny money is in your pockets" - a telling point in times of heady inflation.

I suspect the same fate will befall the "silly question" bumper sticker.

Describing the National Government as the silly questions at issue will likely prove irresistibly rib-tickling to opponents - and perhaps a good many voters.

Social Credit is no longer a joke. Too many people are taking it seriously for cheap jibes to work any more.

In fact, the National Party is taking Social Credit seriously. A number of initiatives have recently been launched to un-

dermine the credibility of the league and its leader.

The Prime Minister mentioned one of them a couple of weeks back: a rural Government MP asks him or deputy

Hugh Templeton a question on monetary policy, enticing Bruce Beetham into a supplementary question in which he is supposed to show his ignorance. Economist back-bencher Ian McLean drives the point home with a mop-up supplementary.

For example, David Thomson (in Sacred-vulnerable Taranaki) asked if the Reserve Bank was the only authority with the ability to create credit, to which the Prime Minister said it was the only institution with that ability "both in an unfettered form and at all times".

Beetham asked whether it was not true that "the private trading banks have always en-

joyed this facility insofar as every extension of an overdraft creates a deposit and every repayment of an overdraft destroys one".

The Prime Minister: "That is where the whole theory of Social Credit falls down. Credit cannot be created except by the Reserve Bank, but then in accordance with Government policy. Other financial intermediaries can create credit only in accordance with the control exercised on them by the Reserve Bank in accordance with Government policy."

In another example, Templeton gave a short dissertation on the reasons for the increase in the velocity of money and accepted an invitation from John Falloon to reject the suggestion that "dumping money into the economy, as Social Credit suggests, will reduce the velocity of money".

Beetham then suggested that "the conscious and progressive reduction in the M1 money supply must be a critical factor in the increasing velocity of circulation".

Templeton: "It is impossible to follow a whole series of misbegotten statements. There is a combination... of factors in the total money supply. There is no conscious area where one can select one particular aggregate and say that that is what one will do."

You may wonder how much effect these clever stratagems would have even if the newspapers printed them in full each day. Since the vast bulk of the voters know no more of monetary theory than that however much something cost yesterday, it will cost more tomorrow and no matter how high the rate of interest on their savings, they will assuredly be worth less tomorrow, the immediate impact is not likely to be overwhelming.

Presumably the reputed monetary solacisms will be synthesised into convenient speech capsules for Nationalists. Perhaps there will be a few inspired articles in the press concluding for voters' benefit that Beetham, a history lecturer by trade, is an ignorant on economics.

Does it matter? Will the voters take any notice and, if they do, will they be deterred from voting Social Credit because the occupiers of the commanding heights of high-inflation, high-unemployment, low-growth orthodoxy assert its monetary policies are hogwash?

If survey evidence is anything to go by, only a small percentage of Social Credit's voters vote for monetary reform, though more may have a vague feeling that the league shares their belief that something has gone wrong with the economy.

In a postal survey I did last year of Rangitikei only 5 per cent of Social Credit voters nominated the league's monetary or economic policy as one of five reasons that attracted them to it. Two per cent said it was the most important reason.

Another 15 per cent nominated the party's philosophy in general as one of the five reasons (6 per cent said it was the most important reason). But one should be careful about including all those as believing in the monetary reform ideas, given the much wider range of ideas behind Social Credit these days.

These findings were supported in answers to questions as to what needed doing about the economy and what were the most important problems facing the country. Only 5 per cent of Social Credit voters nominated interest rates or monetary reforms as one of three things that needed doing and only 3 per cent as one of three most important problems - far below inflation, strikes and unemployment.

Interestingly, the figures were not impressively higher among Social Credit members. Indeed, I have come across branch executives who are not much concerned about the monetary policies.

They have other concerns: the viability of small businesses; the survival of traditional moral and social values; the health of the democratic system; the need for decency in politics; and so on.

So, detailed refutation of Social Credit monetary theories is not likely to have much effect, a point National president George Chapman seems to have recognised. At the selection of the party's Rangitikei candidate a few weeks back, Chapman bypassed the A plus B windmill and rode straight on to the apocalypse.

The theme: straying Nationalists might not care for fine points of economic theory, but dallying with Social Credit could lead them unwittingly to a fate worse than death: socialism.

"Social Credit's economic policies, if ever implemented, would inevitably mean the control over all lending, increased controls over all sectors of the economy, rampant inflation and ultimately the end of private ownership of assets," said he.

"If economic policies are further to the left than the Labour Party," he went on, warning of a Labour-Social Credit coalition in 1981.

Curious as it may seem, Rangitikei Socialists were not thrown into instant panic by this assault. Their common reaction the next day: "People won't believe it."

They are sure they are doomed to be for private enterprise, not against it. And as for conditions (which Labour and Social Credit have always strenuously demanded) Social Credit went as far as to say that a coalition with National would be more natural than with Labour.

There is a quiet, solid confidence in the Social Credit camp in Rangitikei that green thorn among the blue roses. The organisation seems to be well in place and geared up to go, its tentacles spread across the middle of the political spectrum.

By contrast, the predominant National mood is hope. The battered morale is improving, especially since East Coast Bays joined Rangitikei in ignominy.

They see evidence that some of the lost farming vote is returning and are pinning their hopes for headway in the towns (particularly Feilding, the key to the electorate) on former Taihape cop Paul Bardwell, chosen (decisively, from what I hear) over gentleman farmer Nick Tripe in the belief that he can, as one selection delegate put it, "get inside the door" of ordinary voters and counter Social Credit's pervasive presence on the ground.

No longer are they expecting Beetham to hand it to them by failing as a local MP or upsetting people. Local notables say that on the whole he has been attentive, approachable, effective (with one significant exception) and highly visible - a contrast with the two National predecessors, Sir Roy Jack and Les Gandar.

To which one might now add: judiciously and publicly remarried.

He is also at the head of a political movement that has developed considerable momentum. In 1935 voters in their hundreds of thousands ignored dire warnings of doom and destruction by voting in the socialists. Chapman's flailings have a desperate ring about them - and communication of desperation to the electorate could not only be counter-productive, but fatal.

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DEPARTMENT OF LABOUR



Economics

Introducing the Muldoon fiscal drag scapegoat

Economics Correspondent
FINANCE Minister Rob Muldoon has been consistent in his management of the economy, if nothing else. He has consistently skirted around the important economic issues of the day such as high unemployment, high inflation and low economic growth.

Occasions, traditionally reserved for outlining Government policy, have been used to publicise Muldoon's latest acquisitions in his stable of economic scapegoats. At the so-called Orewa state-of-the-nation address in January we met the international economy scapegoat — the world economy was blamed for this country's ills.

The inefficient industry scapegoat was introduced in the budget. Muldoon predicted that by the end of the decade, we would find ourselves with not much more than we started, if we did not rid ourselves of inefficiencies.

Last week's mini-budget introduced the latest member of Muldoon's economic stable — the fiscal drag scapegoat. As the mini-budget said, "one of the major factors which could lead to a decline in the economy in the short-term is the phenomenon known as fiscal drag".

Fiscal drag arises from the combination of a progressive income tax scale and rapidly increasing money incomes which result in an increase in the proportion of an individual's income which goes to pay taxes. It means that even if gross earnings keep pace with inflation, spending power is reduced because income tax rises into disposable income.

But the fiscal drag animal is an inferior scapegoat, as scapegoats go. Superior quality scapegoats are the ones which appear to be the most unruly and independent. When a scapegoat does mischief, governments can claim it is completely outside their control.

The world economy scapegoat is a particularly unruly animal. But Government can take measures such as

changing the exchange rate and setting tariffs which can protect us from its worst lashings.

Inefficient industries are not so unruly. Their worst feature is that their behaviour does not follow a definable pattern. Nobody knows for certain or when or where an inefficient industry is going to pop up.

Unlike the others, the fiscal drag scapegoat's behaviour is entirely predictable. Fiscal drag is created by the Government and can be controlled by the Government.

Fiscal drag could be almost entirely wiped out if the Government really wanted to get rid of its bad effects. All Muldoon would need to do is index the tax scale so that as individual earnings rose, an individual's average tax rate would stay the same. An easier method would be to tax all incomes at the same proportional rate.

But, apparently, the Government thinks the public is ignorant about the causes of fiscal drag, and that they do not blame Government for taking more than its fair share of cost-of-living increases. Benjamin Franklin's precept that "in this world nothing can be said to be certain except for death and taxes" has become a law of nature in the public mind.

So that the Government, after squeezing tax dollars from households with declining living standards, can turn round and make out that a reduction in tax payments is some sort of special Christmas give-away. We, members of the public, must be extremely gullible. We are pleased when the Government gives back something which under different circumstances would have been ours in the first place.

Newspapers like Wellington's *Dominion* headlined that "Tax cuts give February pay packet boost". This headline was followed by a summary, based on the mini-budget, claiming that tax cuts ranging from \$2 to \$7 a week for most workers will be ap-

Tax Cuts Do Not Actually Reduce Taxes for Many Taxpayers

BEGIN with taxpayer earning \$14,000 taxable income this year.
Total tax (present tax scale): \$4220.50. Average tax rate: 30.2 per cent

INCREASE this year's income to cover cost-of-living rises and so on to \$16,600. With Muldoon's tax cut, the tax on this income will be \$5320. The taxpayer will pay more than \$1000 above the amount of tax paid in the previous year. And fiscal drag cuts away at the taxpayers income as well, with the proportion of taxable income going to the Government rising from 30.2 per cent to 31.4 per cent.

BUT the situation would be worse under present tax scale:
Total tax (present scale) on \$16,600: \$5543. Average tax rate: 33 per cent

plied from next February.

But many workers may never see these so-called cuts.

By next February, salary and wage increases will put those in the public sector and many others in the private sector into higher marginal tax brackets. While their tax payments will be lower than they would have been if the mini-budget had not

changed the tax scale, they will probably take a larger proportion of earners' income than previously.

Confused? An example may help. Take a person earning \$14,000 this year. Annual tax on that income under the present tax scale is just over \$4220, or 30.2 per cent of taxable income.

Say that person's taxable income keeps pace with inflation, increasing by 19 per cent on February 1 1981 to \$16,600. Despite Muldoon's tax cuts, the tax on this amount will be \$5320. The taxpayer will pay more than \$1000 above the amount of tax paid in the previous year. And fiscal drag cuts away at the taxpayers income as well, with the proportion of taxable income going to the Government rising from 30.2 per cent to 31.4 per cent.

The only consolation is that if Muldoon had not "cut" taxes in his mini-budget, the amount of tax on earnings of \$16,600 would have been about \$5543, \$313 more than under the new tax scale. Instead of paying 31.4 per cent of taxable income in the Government, the taxpayer would have paid 33.3 per cent. With its tax revenue rising rapidly this year, the Govern-

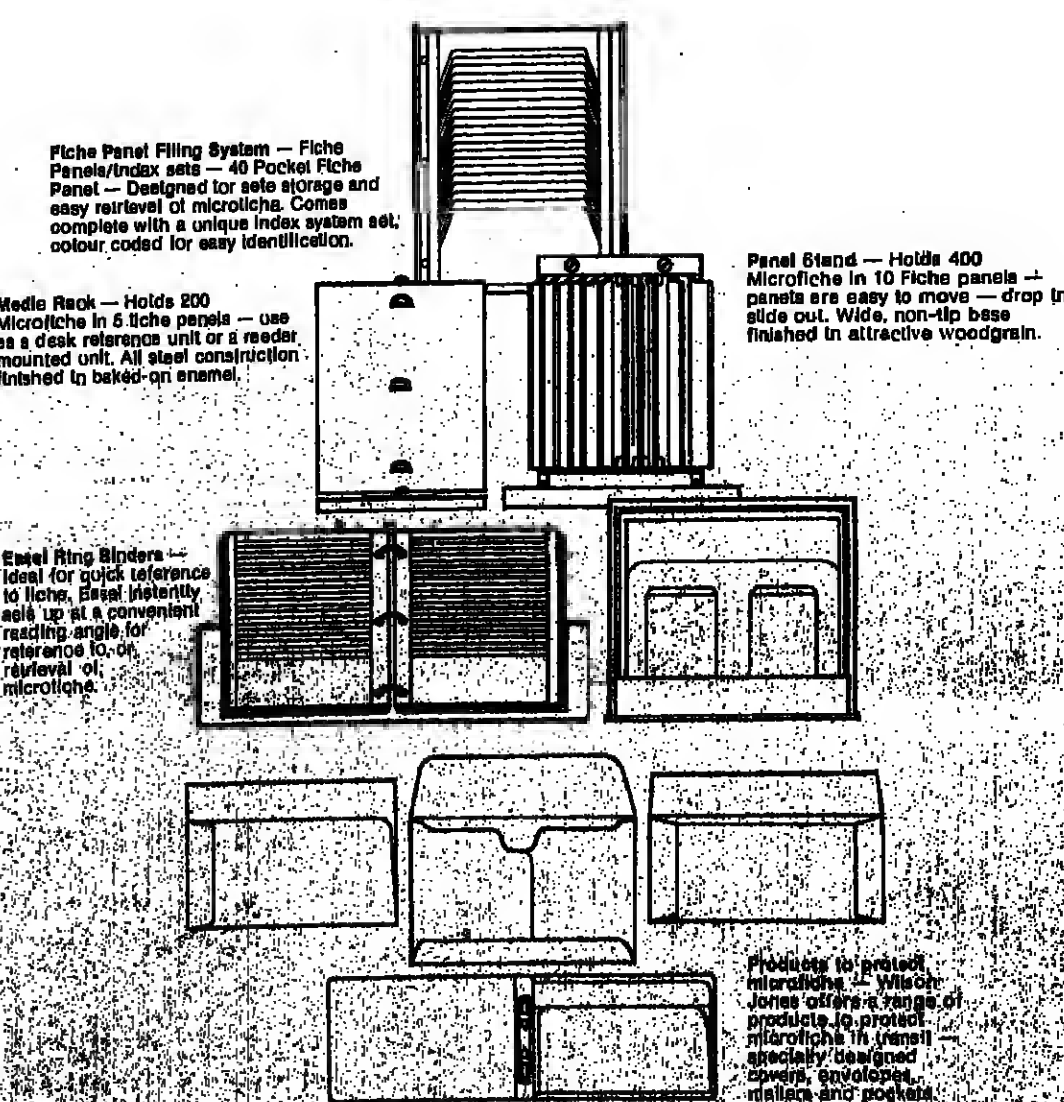
ment had the flexibility to cut taxes by a lot more in the mini-budget. Since the cuts do not take effect until February, when the economy is expected to be growing slower than it is now, a larger cut would not necessarily contribute a great deal to inflation. And cuts for low-income families could have usefully stimulated demand for locally produced household goods.

But it appears that Muldoon prefers to keep the fiscal drag scapegoat safely stabled away for a while longer. Since the animal continues to voraciously consume tax, the Government can save up another "tax cut" for a rainy day.

And are there any hets that that rainy day will come sometime in June or July next year? Just in time to put a little money back into taxpayers pockets before the next election.

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Meagre sustenance from mini-budget stimuli

THE days of annual Budgets which set the country's economic course for the next 12 months without further policy measures are gone forever.

Finance Minister Rob Muldoon's mini-budget last week was probably the first of a series of measures which will be announced before the next annual Budget.

Muldoon said as much after presenting his statement to Parliament, when he commented to the press that further measures would be taken if they were needed in the new year.

The basics of the mini-budget were much as expected, and the immediate reaction could have been written the day before. A 5.5 per cent tax reduction was greeted with derision or acclaim depending on which section of the political spectrum — employers, or unions — was doing the talking.

From a business viewpoint there were two main points which will give mild stimulus to activity.

The tax cuts, although modest, add up to a sizeable dollar sum. The additional supply would be allowed to retail spending but it will help arrest a downturn rather than open the taps for substantial consumer spending.

And that sustenance should, in turn, maintain present production in the manufacturing sector for the domestic economy, the area which is the base for expansion into export activity.

When Muldoon gave his broad outline for the proposed policy measures to the Lower House Chamber of Commerce in late October he said the Government would be prepared to let some economic indicators "get a little out of line" (NBR November 3).

PETER VO'BRIEN comments on the financial and business week, appraises the share market and analyses the company accounts.

At that time we commented that, by inference, the money supply would be allowed to grow a little more than has been the case in recent months.

There will be an increase of \$50 million in the budgetary deficit before borrowing this financial year, and an estimated \$450 million in 1981-82.

Muldoon said last week that these deficits were likely to increase the rate of monetary growth.

In the year to October, the narrowly defied money supply, M1 grew 12.4 per cent according to provisional figures released by the Reserve Bank last week, while the wider (and generally regarded more

important) M3 went up by 14.2 per cent.

The corresponding figures for the September year were respectively 10.1 and 14.8 per cent.

These changes are a substantial downturn from the position a year ago. All aggregates are now below the rate of inflation.

When discussing the possibilities for the mini-budget on November 13, it was suggested that the "trick will be the usual one; to stimulate without letting the important inflation indicator get too far 'out of line'."

Talk of a devaluation was a curious side issue to this mini-budget. Unless a major econ-

omic package was to be put together it is difficult to see how a sizeable devaluation would work.

Muldoon had talked repeatedly of "fine-tuning", and, by definition, that excluded a massive structural change to economic policies, including action on company taxation, possibly on export incentives and so on.

The Government of present appears wedded to the concept of a gradual downward shift of the \$NZ in line with its overall policy of "gradualism", and a large devaluation is hardly "gradualism", irrespective of its economic merits when combined with other significant policy changes.

Business, particularly the "small" business person, should benefit from the employment subsidy policy and the availability of funds from the Development Finance Corporation in the form of cumulative preference shares to finance expansion.

Both these moves are good examples of how the "free market" philosophy is adapted to take account of realities.

While the employment benefit of \$3000 for two years is described as a suspensory loan, it is actually a wage subsidy, if the job still exists after 12 months (when half is written off) or two years, when the balance is written off.

The scheme is designed as an alternative to the role, and

roughly equivalent to about half the wage payment each year. To that extent it transfers one form of government expenditure to another, which is considered more productive.

The cumulative preference share scheme will depend on the individual attaching to the shares when the DFC subscribes to a particular company. If it is below general market rates, that too amounts to a form of subsidy, although the small business also benefits from having the money in the form of capital, which keeps the financial gearing in balance.

The scheme is intended to have practical relevance to small business problems, but there is a danger in this approach.

It is too easy to lose sight of the fact that some complaints from small business derive from the lack of skills in the complainants. The large proportion of small businesses are run by people with drive, who are hardworking and put up with difficulties in building up an enterprise.

But there are some (and they are not hard to identify if one is close to the overall business scene) who think that you can run a business between 9 and 5 and take every weekend off. If the proposals for small business perpetuate that myth among the few who believe it, they could do harm.

Retail activity may be

THE mini-budget appeared to underpin the sharemarket last week, rather than give it another boost.

In some cases it is difficult to assess the real impact of the Government's proposals because they were inevitably only part of the mix which goes into the many factors affecting a market.

The movement in retail shares is an example. The mini-budget should maintain retail activity in the coming months, and may help Christmas trading, if individuals decide to spend their tax reductions in advance of receipt.

The DIC's shares jumped 10 cents on Wednesday, after a 5c gain on Tuesday, but the mini-budget was not the only influence on the company's share price.

Finance Minister Rob Muldoon's statement coincided with reports of the DIC's annual meeting. Shareholders were told that pre-tax profit in the first four months of this year was 17 per cent ahead of the same period in 1979; that the company has budgeted for sales of \$50 million in 1980-81, compared with actual turnover of \$43.4 million last year, and that the group has 11 years of dividends from tax free sources available for future distribution.

The tax free sources arise from the creation of DIC Properties Ltd, a subsidiary which would control the parent company's property-owning and leasing operations.

Chairman Peter Fels said an agreement for sale and purchase between DIC and DIC Properties has been completed and transfers are being processed.



Peter Fels, DIC chairman, "absolutely low"

DIC is not the first company to get into this procedure, which frees up a realised capital gain and makes it available for distribution, by transferring properties to a subsidiary at their true value, rather than the book value or the amount which arises from a revaluation of assets.

A company is unable to make a cash distribution from a non-realised capital reserve, but there is nothing to stop it "realising" the gain by a transfer such as DIC has embarked on.

Fels also told the meeting that the present share price was "absolutely low" and said any shareholder intending to sell should hold but for a much higher price.

There are few company chairmen who will state publicly that their shares are "absolutely low", but Fels has a strong point when he makes the claim for DIC.

Last year the company paid a dividend of 16c a share (10 per cent) tax free and expected a dividend of 2.7 times the share price.

Analysing accounts: Andas and Clyde Group

INTERESTING information has been hidden in the annual reports of listed companies when directors decide to say nothing about it.

The annual reports of Andas Group (formerly Armstrong and Springhall) and Clyde Group have examples of balance sheet changes which should be explained to the shareholders and other audiences.

Both companies held their annual meetings on Friday, after NBR went to press, so the directors may have responded to shareholders' questions. That would be a good thing, but it would be better if the companies included the explanatory information in their reports.

In the case of Andas, the report includes 12 pages of straight advertising for the company, its products, and operational methods, an amount of space equal to that given to the accounts, notes, and directors' and managing directors' reports.

The company's profit and accounts show a strong recovery from the disastrous year in 1979, when net profit after taxation fell from \$17,670 to \$98,694 compared with \$632,992 in 1977.

This year the group improved net profit to \$288,595, and covered its 14 per cent

dividend, a feat which was beyond it in 1979.

Sales were up 13.6 per cent, but the gross profit increased only 10.8 per cent, with a consequent cut in the gross operating margin. The company held general expenses to a rise of only 7.6 per cent, and increased pre-tax profit from \$152,997 in 1979 to \$471,664.

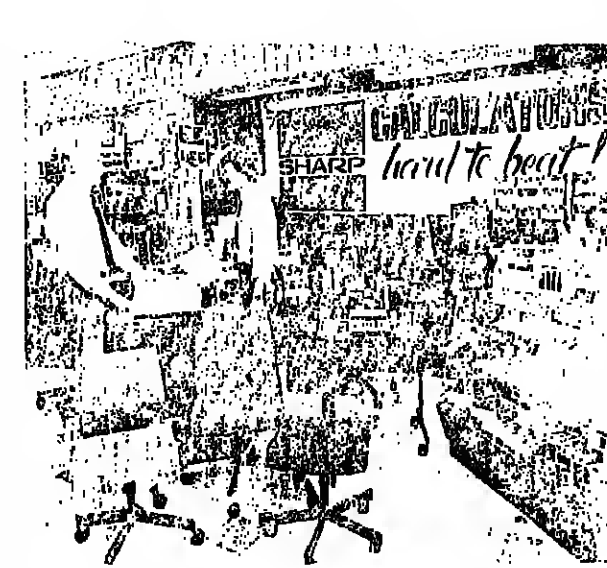
That result was reasonable in view of the difficulties associated with the office equipment market, and the problems which occurred in some subsidiaries in recent years.

The consolidated balance sheet looks straightforward, with a tight control over stocks, debtors, creditors, and the other items which cancel out of hand and cause headaches.

Bank overdraft jumped 58 per cent to \$1,229,729, but there is no explanation why this should happen in a year of consolidation.

The clue comes in the fixed assets section of the balance sheet. Andas' "motor vehicles" went from a book value of \$213,331 in 1979 to \$519,746 last year. That may seem a minor movement in relation to the asset values of many other companies, but it is an increase of 143.6 per cent, and has to be considered in relation to the total size of Andas, whose total assets have a book value of only \$11.9 million.

That should be worth a line or two in the annual report. What happened? Did the



Product pics... same space as accounts

company have to replace an existing fleet suddenly? Did it expand the fleet last year for reasons which are not stated in the report? Or has the group decided to buy a couple of Mercedes for status?

The shareholders might like

to know, since their money is invested in whatever vehicles were bought for whatever purpose.

The Clyde accounts also contain a substantial rise in overdraft from \$692,000 to \$1,226,000, but again no reason

is given in the report.

A clue is found in the statement of changes in financial position. Cash flow from operations was \$1,412,000 to which is added the bank overdraft increase and a slight reduction of \$25,000 for cash at bank, giving a total of \$1,921,000.

Purchase of fixed assets took \$408,000, working capital improved by a net \$506,000, and repayment of term liabilities accounted for \$610,000.

While it is difficult, and unwise, to isolate particular flows from the "bag of money", it appears that the rise in overdraft might be partly related to the repayment of term liabilities.

The company paid off a mortgage worth \$53,000 in the 1979 books, it replaced a term loan of \$400,000 payable, this year and carrying interest at 14 per cent a year, with four separate loans of \$10,000 repayable from 1981 to 1984 and a \$20,000 loan repayable in 1985.

The interest rate on the loan

repaid, and on the new loans, is 14 per cent. In addition, a \$429,000 mortgage repayable in 1982 was reduced to \$92,000 during the year.

Clyde had a difficult year, with trading profit after tax, and before extraordinary items and minority interests, falling from 1979's \$567,000 to \$308,000, which is less than 2 per cent on sales of \$18 million.

The latter were also down by 16.6 per cent from the previous year's \$21.7 million, but part of the reduction related to the disposal of the Atlas Steels subsidiary. The effective sales fall was about 5 per cent after allowance for Atlas, according to the report.

The company blames a dramatic drop in the agricultural equipment market for most of the problems, which seriously affected farm tractor sales. The agricultural equipment business, including tractors, is highly competitive in this country, and any downturn eats further into margins.

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Sustained by mini-budget

IN last Wednesday. At that time the actual dividend yield was 6.65 per cent.

The effective yield, assuming a tax-free dividend of 16 per cent in the current term, is 21.6 per cent for an individual on a marginal tax rate of 60c in the dollar.

An investor would need a pre-tax return of 21.6 per cent from an alternative investment to equate with the DIC, assuming the company pays a full tax-free dividend.

Retailers have problems at present, in spite of the mini-budget's possible stimulation of consumer spending.

The industry has a high labour content which is difficult to lower, particularly in the general and department store section, which, unlike supermarkets, has difficulty in scaling checkout alleys.

Sunday trading could be another problem, because the stores may open to get the same level of retail spending which previously crossed the counter between Monday and Friday.

If they fail to lift turnover in real terms beyond the rise in overheads, there must be either price increases or an erosion of margin.

While these problems exist and should not be underestimated, the DIC has attraction at current prices for people seeking a high tax-free yield from a dividend which is well covered, and likely to be well covered again this year.

There appears to be some money in the share price before the fully valued.

Shareholders' shares are carried ahead in the rundown

to last week's annual meeting.

Cum bonus trading closed at \$4.60, compared with a price of \$3.82 when they went ex the cash issue in early November. A price rise of 17 per cent in three weeks for a high priced stock is unusual, even in these bullish times. But if history repeats itself, the theoretical ex bonus price of \$3.45 should move up again in the coming months.

NOTE: The writer neither owns, nor has a beneficial interest in, DIC or Brimley shares.

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DADE 143

Primary industry

Farmers pressuring agents into cutting costs

by Rae Mazengarb

STOCK and station agents are being pressured by farmers to compete for business by cutting costs.

They deny they are not competitive.

"We maintain competition exists in more things than money," Stock and Station Agents Association general manager Lindsay Simpson said last week.

That argument will probably form the basis of the agents' submissions to the Commerce Commission's public inquiry into stock and station agents' fees.

Competition derived from the quality and sufficiency of service, Simpson said. The telling factor was that farmers — although free to deal with a number of agents — tended to stick to a particular agent on a regular basis. But that custom depended on the quality of

service provided, Simpson said.

But farmers say that competitiveness should extend to price.

"It's fair to say most farmers are concerned mainly about cost," said a Federated Farmers spokesman.

The Commerce Commission inquiry is being held in accord with recommendations from the Examiner of Commercial Practices, with whom Federated Farmers laid a complaint last year.

The complaint is against the collective setting of stock and station agents' fees by their association, a practice approved by the commission in 1978 subject to certain conditions.

The commission decided then that sale fees should clearly show that they were to be considered a maximum, and

hence allow for competition between companies.

Federated Farmers claims that those conditions have not been put into practice; that stock and station agents had not been properly informed that the scale was a maximum and that they were free to charge lower fees without fear of sanctions; that the result had been collective agreements which precluded the negotiation of fees lower than the scale.

Investigations of the complaints uncovered evidence to suggest that individual farmers had failed to negotiate lower fees and charges.

None of the companies could instance a case where fees, below the scale, had been successfully negotiated since the 1978 decision.

The examiner recommended the commission revoke its approval of the collective pricing operations by the as-

sociation and recommended agreements be approved subject to the new conditions.

Association members would be given six months to revoke or amend any rule which conflicted with the requirement that fee scales clearly indicate they are maximum fees; and the current scale of fees would be deemed to have been ensued in terms of the approval.

A Federated Farmers spokesman told NBR that this organisation merely wanted to secure effective competition among the agents.

"We're having collusion," he said, despite the conditions laid down in 1978.

Farmers in theory had the power to negotiate lower prices, but in practice there was no room for it, he said.

Simpson said he was unhappy about the farmers' complaint. "It's quite undeserved," he said.

Since the 1978 decision companies knew they were free to cut fees, Simpson said.

This had not happened in practice because the cost of supplying the service today was so high, and "I'm not sure many companies would be able to cut..."

Asked if the accounts of the various companies would be presented as part of the agents'

case, Simpson said no thought had yet been given to the formulation of evidence.

A hearing date has not been set but the commission has called for application for preliminary evidence at the substantive inquiry.

The examiner gains automatic status under the provisions of the Commerce Act.

Fitzgeralds say comment wrong

JIM and Audrey Fitzgerald have objected strongly to Bob Edlin's editorial comment in last week's issue of NBR that they secured the Marginal Lands Board loan by "persistent lobbying and unabashed exploitation of their family connections in Cabinet".

The Fitzgeralds maintain this comment to be wrong on three counts: First, they note the finding of the commission of inquiry on page 109 of the report that the Fitzgeralds obtained the loan on the merits of their case and that their "political connections had nothing to do with it".

Second, they say the words "persistent lobbying" have overtones of "continuous behind-the-scenes activity and 'are quite inappropriate' to describe their actions as set out in the commission's report. These actions, during the

three-month period in question, were:

- (a) One formal visit to the Minister of Lands;
- (b) One dinner conversation overheard by Duncan Macfadyen;
- (c) The official dialogue between the Fitzgeralds and the Marginal Lands Board (excluding the Minister of Lands) and its committee.

Third, they say that "unabashed exploitation of family connections" are gross misrepresentation of their actions listed above.

The Fitzgeralds contend that Edlin's comment "is typical of comments uttered in Parliament and by the media that have misled the public seriously, and caused the Marginal Lands Board loan to have received quite excessive amounts of publicity and criticism, and to have unfairly taken up the nation's time."

BMG 80 finalists

THE information supplied to us on the results of round three of the business management game incorrectly stated that the winning South Island team, which will take part in the BMG 80 final, was from Wilkeson Wilberforce & Co.

The winning Dunedin team is from the firm of chartered accountants Gillman, Morris & Co, which had two teams in this year's BMG but none in round three. The kudos there-

fore rightly belongs to Messrs Martin, Wilkes, De Gourney and Ashley of the Dunedin office of Gillman, Morris & Co.

Gillman, Morris & Co was the only firm of accountants of the many which entered the BMG to succeed in getting through to round three this year.

ICL and the game staff apologise for the confusion with these firms' names and regret any embarrassment.

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Overseas trade

Leather leaders look to lucrative American market

by Allan Parker

LEADING members of the leather industry met in Christchurch last week to piece together an assessment of finished leather export opportunities to the lucrative United States market.

Representatives have recently returned from a Government-sponsored export

opportunity visit to nine American states to investigate the potential for selling leather products to the United States.

The United States imports leather products worth \$300 million a year. Traditionally, these imports have come from continental Europe and Britain but the low-cost, high-volume developing countries in Asia and South America are grab-

bing an increasing percentage of the trade.

Team leader Nigel Bowron, of Christchurch-based G L Bowron and Co Ltd, told NBR that preliminary assessments indicate that this country has no chance of competing against these countries for the mass-produced market.

But he is confident that there are definite prospects in some sectors for specialised products.

"We certainly see some niches for specialised types of leathers from New Zealand," said Bowron.

Examples include belts, tanned woolskins in finished form for the garment trade and chamois leather products.

The opportunity to develop the chamois leather trade follows this season's drop in the price of sheep pelts.

Bowron hopes the team's report will be at least formalised before Christmas. Interest in the findings is said to be high throughout the industry.

New Zealand manufacturers have made little inroads into the United States market, concentrating instead on Asian and European markets. They

see this report as an important pathfinding venture into a potentially large market.

But, Bowron warned that while the team will report prospective areas for developing trade it will also identify those areas which it feels would be a waste of time exploring.

If the potential areas are to be developed, they will still require "a lot of homework" by individual companies. Some capital investment may also be needed and it is possible that the team will recommend some form of Government assistance to industry sectors with the greatest potential.

Government sponsorship proved valuable for the five-strong team, Bowron said.

"It opened doors more quickly and got us to very senior levels. As an exporter of old,

I know it's not always easy to get to the right people."

Bowron suggested that there is room for improvement in the quality of New Zealand products if they are to penetrate the United States market successfully.

"Anyone looking at the United States market has to be prepared to meet the quality conditions required by the Americans. Some companies here may have to make some adjustments to quality and there may have to be some further product development."

Another meeting between the tour members will be held in Wellington next week to finalise the report before distribution to the industry and other interested parties.

Energy

FBI's sheik set-ups rattle Saudis

by Warren Berryman

THE touchy Saudi Arabians are again rattling the oil weapon — this time against the Saudis — the United States.

The Saudis were not yet over their outrage at the British edge of the film *Death of a Princess* when perceived insults came from another quarter — the American FBI.

The FBI was out to trap a few corrupt congressmen by baring a phony sheik pass out tribes while cameras and tape recorders rolled.

The "Abscam Briel" was highly successful in more ways than one — not one of their elected representatives taking a bribe.

But it did not amuse the Saudis. Why, they want to know, did the FBI have to use a phony sheik? Why not a banana republic millionaire? A European tycoon? Or an Indonesian general?

The Saudis made their feelings known at a recent Energy Development Planning conference on Saudi Arabia and industrialisation at the University of Colorado. The FBI, they complained, was furthering the stereotype of the Arab as someone who went around paying money under the table.

The Saudis' remarks were not missed by the representatives of the big American oil companies present.

The Saudis took the oppor-

tunity to complain that their close relationship with the United States was becoming a bit one-sided — in the United States' favour — which brought up the question: Why should the Saudis continue producing oil at a higher level than it can spend the revenue, just to supply the West?

It is not that the Saudis are ill paid for their oil. Oil revenue flows into the kingdom at the rate of about \$100 billion a year (\$14 billion of this from the United States).

And Arabia enjoys military protection under the American umbrella.

Saudi Arabia plans to transform the kingdom into an industrial state as an insurance policy against the time when the oil wells run dry.

But oil production, at 10 million barrels a day, brings in double the revenue needed to finance the country's development needs. (Saudi's third five-year plan calls for expenditure of \$235 billion).

All this would justify cutting back oil production, which in turn would probably open the doors to higher oil prices when Saudi Arabia's huge productive capacity was no longer used to tune down demands for higher prices coming from the OPEC hawks.

The Saudis play a key role in oil pricing. At least one of the American businessmen at-

tending the Colorado conference came away with the conviction that future Saudi decisions could depend, in large part, on such seemingly trivial — real or imagined — national insults such as *Abscam* or *Death of a Princess*.

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Taking the guesswork out of drinking and driving

by Lindsey Dawson

AN electronic breath test instrument which aims to take the guesswork out of drinking and driving was launched on the direct mail market last month.

The Swedish unit, not much larger than a cigarette packet and retailing at \$69, has been tested by the Alcohol Research Unit at Massey University and was found to give an accurate readout of blood-alcohol levels.

It is called the Alco-Check breath tester and has been im-

ported by the Austscan Trading Company Ltd of Auckland, a firm which specialises in Swedish cutting equipment.

"The unit can help people to get an idea of how much they've had to drink. They can carry it in the glovebox of the car or in their briefcase, and if the unit tells them they're over the limit then they shouldn't drive. Some hotels overseas keep one in the bar so that patrons can find out how fit they are to be behind the wheel," said managing director Guy King, who is adding the

product to a considerable list of Swedish imports.

King began operations in late 1976 after living in Sweden for eight months. After a time in Australia he returned here and saw the opportunities for Swedish products, particularly in the field of technology.

"We found that with the downturn of the economy the products we've been bringing in are in a very sensitive area. When companies have a downturn and they're not cut-

ting steel or other materials we're one of the first to be affected. So we've tended to broaden our base a bit and go into other Swedish lines." The company also imports Australian furnishing fabrics as a well-established sideline.

King is also working on developing the export of horticultural products to Scandinavia, and has just sent sample shipments of boysenberries to Denmark.

The balance of trade between Sweden and New

Zealand is in Sweden's favour and King sees great scope for a variety of crops to complement what has already been achieved by other companies, notably Turners and Growers and Auckland Export which send Kiwifruit, apples, pears and wool.

King heard of the breath tester through a business contact who acts as a consultant to Swedish companies looking to develop their markets. He told King that the tester had gained a wide acceptance in Scan-

dinavia (100,000-odd have sold since 1978). King's company is working on introducing the Alco-Check to Britain and the United States and asked King if he would be interested in selling it on the Australian and New Zealand markets.

King did not want to commit himself until the unit had been thoroughly tested here. He brought samples back for examination at Massey University.

The units were judged satisfactory as a device for individuals to judge their fitness to drive, although Massey felt the calibrations should be adjusted slightly upwards as the units were warning drivers to drive at slightly under the limit, instead of right on the limit.

Only last year the paper had expired as a weekly tabloid after last rites had been administered several times during a couple of years. Apparently not even a change of ownership had saved it.

But the new owner-editor, Melbourne book publisher Geoffrey Gold, wouldn't accept defeat and relaunched the journal as a quality monthly magazine at the beginning of this year and it has been rapidly growing in stature and readership ever since.

"It has always referred to itself, proudly, as the independent quality Sunday newspaper, national weekly and, now, monthly magazine. For most of its history, its self-title has been well applied," noted Gold in the October birthday issue.

"Outside of the mainstream media life of the four private and one public media conglomerates, *Nation Review* has acted and continues to act as an independent social and political critic - sometimes maverick, often provocative and invariably innovative."

King guarantees to replace immediately any faulty unit within the 12-month guarantee period.

King says that, despite the price, people are showing a great deal of interest in the battery-driven device. "The reaction has been excellent. I think there is a growing element who now realise the hazards of drinking and driving, and would use such a device."

The Alco-Check has a breath tube on top of the unit and comes with a supply of plastic mouthpieces to ensure hygiene.

The user blows into it for between four and six seconds, and a sensor inside registers the alcohol vapour and shows pass, warn, or fail lights in green, amber and red respectively.

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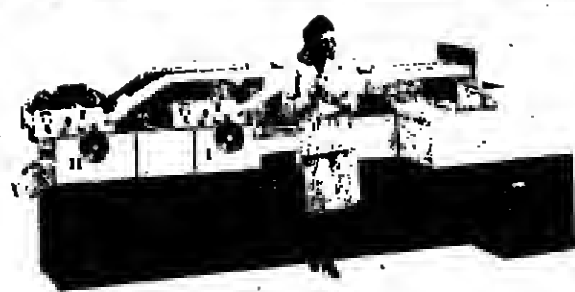
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Together

'Ferret' sniffs its way into second decade

by David Roble

NATION REVIEW, the radical newspaper turned magazine that spawned an upheaval in Australian journalism and sent ripples across the Tasman to New Zealand, has celebrated its first decade.

But it has been no ordinary anniversary for the controversial journal, known popularly as the "ferret" for its lean and snappy smiting out of stories and scandals that the mainstream media wouldn't touch.

The 10th birthday issue was dedicated to a remarkable triumph of survival.

Only last year the paper had expired as a weekly tabloid after last rites had been administered several times during a couple of years. Apparently not even a change of ownership had saved it.

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US production increases

INDUSTRIAL production in the United States increased again in October - the third straight month of increase.

The industrial production index had turned down sharply in the second quarter of the

year, coincident with the start of the nation's recession, and reached a low-point in July. It has risen 4 per cent since then.

The October increase was 1.6 per cent. But that still left the index 4.4 per cent below its level one year ago.

The confidential informa-

The journal that boasted writers and cartoonists of the calibre of John Hepworth, Mungo MacCallum, Richard Beckett, Mike Leung and Bruce Petty, was founded by millionaire Gordon Barton in October 1970. It began life humbly as a piggy-back weekly (called *Sunday Review*) tucked inside Barton's other publishing toy, the original Melbourne *Sunday Observer* (itself something of an innovator).

First editor was Melbourne journalist and historian Michael Cannon. He was shortly replaced by Richard Walsh who was remembered for his inexhaustible ideas and love of bawdiness and scurrility.

Under his editorship, the independent weekly *Nation* and former *Nation Review*.

Walsh was often busy with legal actions for libel but the weekly grew rapidly, capitalising on the optimism of the Gough Whitlam era, and circulation peaked at 55,000 in 1972.

The "ferret's" satirical, larrikin approach has influenced all other major papers in Australia. This became evident in the more liberal approach of the major dailies and greater use of cartoonists and caricaturists, accompanied by the impact of "new journalism" and more subjective comment in political reports.

Walsh and another former *Nation Review* editor, George Munster, were at the centre of this month's publishing furor in Australia as the Federal Government took legal action to prevent publication of secrets about foreign policy.

The confidential informa-

Sunday Review

PROF. SAWER ON THE CONSTITUTIONAL CRISIS
LIFE UNDER THE SCREWS
17 MORE MINISTERS WHO KNOW WHAT HE LIKES



The 'ferret'... in the beginning and 10 years on

tion was contained in a new book published by Walsh and Munster entitled *Documents on Australian Defence and Foreign Policy 1968-75*.

The *Sunday Morning Herald* and the *Age* of Melbourne on November 8 ran excerpts from the book but a High Court injunction forced them to pull out the material from their later



The 'ferret'... in the beginning and 10 years on

editions. The Government also took legal steps to prevent distribution of the book.

Several New Zealand journalists have been involved in *Nation Review*, either on the staff or as contributors, and the publication has frequently given affairs this side of the Tasman closer scrutiny than has the mainstream press. New

Zealand's media have also suffered nasty nips by the ferret. At one point, the *Review* even considered launching a special Godzone edition.

Columnist Hepworth recalls that *Nation Review* came as a tonic to the establishment press which tended to be conservative and pompous.

"We were irreverent, larrikinish and used language that hadn't been used in public. The net effect of *Nation Review* was that it liberated the language and attitudes of the rest of the press," he said.

"It forced the telling of a lot of stories that were not being told."

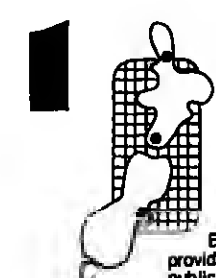
Walsh, now chief executive of book publishers Angus and Robertson, explains: "We wanted to achieve a new vernacular strain in Australian journalism - a new standard of quality weekend journalism." This goal was certainly

achieved, opening the way for such publications as the *National Times* and *Sunday* (now *Weekend Australian*). But, ironically, Walsh's staffers recall that he resisted many publishing and marketing ideas that might have given the paper economic strength.

As Whitlam's fortunes faded, so did those of *Nation Review* and its circulation slumped by half. (The paper was never losing less than \$2000 a week at the time and it had to carry an overhead of crippling legal costs, reportedly more than \$300,000).

"It's curious how the patio left abandoned its loudest and bravest multipiece in order to save every week the price of a schooner of beer," noted a former staffer as the journal floundered a year ago. "It shows how highly they value their freedom of speech."

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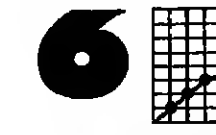
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Shipping

Local meat firms query producer board's priorities

Continued from Page 1
ABC supporter, used his good offices to convince ABC owner Tsvi Rosenfeld to grant the extension.

Rosenfeld agreed on the proviso that the board refrain from using ABC's rate offer as a bargaining lever against the cartel.

ABC's position on the east coast run is invidious in that the line is actually a member of the conference — it is aligned to the rate agreement and offers services and rates identical to the other carriers.

However, the producer boards have a veto power, in that individual members of the conference may not be given the title of approved carrier.

On November 20 ABC received a telex from the Meat Board saying its application had been declined. The board signed a two year contract with existing meat carriers allowing

for an 8.5 per cent rate rise in the first year and an 8 per cent increase the second year.

Rosenfeld reacted angrily saying he would pull ABC out of New Zealand, but cooled off and vowed to stay on and fight. This was the seventh time ABC's offers of cheaper freight rates had been rejected by the Meat and Wool Boards.

Rosenfeld made it clear he was tired of his offers of cheaper freight rates being used as a bargaining lever.

"I was warned by conference members that they would put their rates high and offer inducements to keep us out. They did. And the producer boards fell for it," he said.

Neilson said: "I was invigiled, bluffed, or whatever you call it, to persuade Rosenfeld to extend his deadline. And I was just used in the same way Rosenfeld was used. And I don't like being used."

Had ABC's offer been accepted it would have meant a freight saving of at least \$600,000 in the first year alone.

Meat Board chairman Adam Begg said: "If ABC were to take 1000 containers the revenue that would be lost to the existing trade would be about \$6 million. This is about the revenue they earn taking these 1000 boxes at the present freight rates."

NBR asked why that was of interest to the board, which was theoretically set up to act in the interest of local farmers and not to look after the profitability of a shipping cartel?

Begg said: "You are absolutely right. That's what we do. But if you look at what would happen if in that trade you take away \$6 million worth of revenue and allow ABC to take 1000 containers, which is considerably less than 10 per cent

of the trade, you're left with 90 per cent of the trade to carry in some way. You have three options open: one is to settle down to negotiate a price with the existing lines which would undoubtedly result in them seeking to recoup at least part of the loss..."

NBR asked why it was 'undoubtedly' that the existing lines would ask for a freight increase rather than trim some fat off their operation and compete with lower rates as had happened in Australia when the cartels were faced with non-conference competition?

Begg said: "The situation we're in negotiating with them I don't think you're going to trim any fat off them. You can either make an agreement with them or not... If you make an agreement with them it's undoubted — I didn't say they'd get it — I said they'd seek to recover it."

He said the Shipping Corporation's application for approved carrier status had been turned down just as ABC's application was. His reasons: the meat trade to the USA was suffering declining volumes and the existing shipping lines could handle the traffic.

Begg said if the corporation came up with a new proposal to carry meat as part of its Caribbean service "then obviously we're not going to stand in its way. We'd look at a limited service."

Asked about the support for ABC from the New Zealand-owned meat companies, Begg said he did receive a letter from Neilson outlining their support but these listed companies did not come to him on their own bat.

"I deal with the Meat Exporters Council in these matters. They (the members) endorsed what we proposed to do."

"On shipping matters we deal with the official body. That's the Meat Exporters Council. What a hopeless mess I'd be in if I started talking to all meat exporters individually round the country," he said.

Some locally owned meat companies fear the council, like the trade itself, is dominated by foreign concerns and is not always sympathetic to New Zealand's interest.

Neilson has already written his directors report for Waitaki NZR (due out before Christmas).

"If we didn't agree to them recouping some of it I think you would have had the whole thing thrown open. That's the second option. Okay, so ABC take 1000 boxes. The rest of the trade is open to all comers. The existing lines already have a contract signed with Australia so we were left at a disadvantage versus Australia. In trading we'd get a residual offering so far as those lines were concerned. Don't forget we spent seven weeks looking for alternative carriers and they were not there. We would have been left in a situation where Australia would have priority of times when the prices were high and we had a lot of beef to ship because the Australians are in a contract situation. We'd be in a catch as catch can situation and undoubtedly we'd lose out at the times when the market was best."

Neilson was concerned that the board's restriction of exports to the cartel meant that his company and other New Zealand-owned companies were forced to ship on a line owned by competing foreign-owned meat interests.

Blue Port (ACT), one of the cartel members favoured by the Meat Board decision, is owned by the British Vestey family, which also owns a large slice of the New Zealand meat industry.

Among the New Zealand Vestey holdings are: W and R Fletcher, Monarch Bacon Co Ltd, Wanganui Mild Cure Bacon Co Ltd, Union Cold Storage Co (NZ) Ltd, Pura Freezing Co Ltd, Amalgamated Products Ltd, New Zealand Stockfoods Ltd, Westfield Freezing Co Ltd, Auckland Meat Co Ltd, and others.

W and R Fletcher is a key meat company carrying considerable clout with the Meat Exporters Council, which in turn advises the Meat Board on shipping matters.

Some of the New Zealand-owned meat companies are concerned about the "London club" — an old boys relationship wherein producer board executives, meat company executives, and British meat and shipping interests gather in British country estates socially.

They fear their own nationalistic hopes might be forgotten by their emissaries amidst all this country opulence and camaraderie.

If the Meat and Wool Boards succeed in driving ABC from New Zealand the biggest losers will be manufacturing exporters.

Meat Board flies in face of Government policy

THE Meat Board flew straight in the face of Government policy with its decision to bar freight rate cutting shipper, ABC Container Lines from the United States meat trade.

The Board landed a statutory monopoly to the United States shipping cartel only one day after Transport Minister Colin Mclachlan announced Government plans for a major policy review of shipping next year.

Mclachlan's statement was read at a meeting of the Chartered Institute of Transport in Auckland by Tourism Minister Warren Cooper.

The speech blasted the producer boards for "a certain degree of conservatism present in their attitudes which prevents them from clearly perceiving some of the alternatives available in transport today."

One of the "alternatives" was ABC Container Lines, which received every favourable treatment in the speech.

In relation to the value of New Zealand exports the percentage spent on overseas freight has more than doubled in the past six years, Cooper said.

The Apple and Pear Board, by breaking the conference tradition, saved itself considerable freight costs and Australia, through open competitive tendering, held down conference rate increases, Cooper pointed out.

Cooper said: "Some measure of competition is ultimately the most effective way of regulating freight rates."

"For too long, however, we have been complacent, unquestionably accepting shipping arrangements which have suited us in the past," he said.

Health

'Sanitary protection' becomes socially acceptable

by Belinda Gillespie

MENSTRUATION and the best way of dealing with it is becoming a topic of open debate in the media.

Advertising of what tampon makers (but no one else) euphemistically calls "sanitary protection" is now socially acceptable.

The importers of a well-known brand of tampon noted in its 1980 annual review that the tampon advertising, which began on television in August 1979, was the first of its kind here.

"While not entirely acceptable to all viewers it complies with the strict rules laid down by Television New Zealand which is following world trends in accepting advertising of this kind," the report noted.

Far from opening up a taboo subject, advertisements in all media have further added to its mystification.

They show a glamour world of young things in limbo, in sports gear, but omit the physical realities.

Like the ads for other products — cigarettes and soft drink, bras and detergents — they promise women that in buying brand X, they will be buying looks, body and lifestyle along with the package.

Their object is not to be explicit, but to position brand X against brand Y by offering a better-looking advertisement.

It took the drama of a privileged statement from Director-general of Health John Hildesstone to break down the taboo and put the topic, if truthfully, on the public agenda.

The events which led up to the privileged statement of October 6, warning women not to use tampons, began in the United States in May.

The American Health Department's Centre for Disease Control in its weekly *Morbidity and mortality report* said: "Cases of a newly recognised illness known as toxic shock syndrome (TSS) have been reported to CDC by state health departments in Wisconsin, Minnesota, Illinois, Utah and Idaho. Physicians in eight other states have reported individual cases."

In June it noted that a further 50 cases of TSS which had occurred since September 1978 had been reported. It also described three separate studies which had been undertaken in the United States to look at "various practices and products associated with the menstrual cycle".

The risk of TSS appeared to be low — probably about three in every 100,000 menstruating women each year.

The CDC weekly report of September 19 confirmed the roles of the bacteria *staphylococcus aureus* and tampons in TSS.

For the first time, the CDC singled out a single brand, Rely, in association with an increased risk of TSS.

Of 299 cases reported since January 1980, 25 cases were in women, and there had been 25 deaths.

"While the rate is still low, the severity of the illness and the case-fatality ratio makes TSS a cause for concern, particularly since TSS occurs almost exclusively in previously healthy young women," the report said.

About the time this report

must have arrived in New Zealand came the first shock-horror report of TSS here.

After consultation with the sole manufacturer and two importers of tampons, the Health Department issued its privileged statement warning women "to avoid the use of tampons during menstruation, until the possibility of danger following their use had been clarified."

Although claiming to have been alerted to the problem by United States reports of TSS cases, the Department stayed its hand at least from May (the time of the first CDC report) till the beginning of October when the first two suspected cases here were reported from Auckland.

In mid-October the Health Department released the results of its tests on the four brands of tampons available on the New Zealand market — Carefree, Meds, Puresse and Tampax.

In contrast to its tests on waxes, the department felt free to give the brand-names and composition of each product — presumably because, in Health Minister George Gair's words, TSS is related "not to one particular brand of tampon, but to the use of internal sanitary protection". In other words, the department's report didn't confer a market advantage on any brand.

Important findings were:

- Tampons did not contain asbestos;
- *Staphylococcus aureus* was present in any brand;
- Cultured tampons didn't support the growth of *staphylococcus aureus*.

TSS was "still a subject for further investigation both overseas and in this country... further time and experience may modify this current analysis of the problem," the department said.

The Health Department statement was a comprehensive, practical document which provided helpful hints on safe and hygienic use of tampons.

But as it relied for its release on the media, which by then was tiring of the tampon story, coverage was skimpy.

Gair later bemoaned the fact that newspapers had thus deprived women of the chance to be fully informed before deciding whether to continue to use tampons.

The department is currently negotiating with the importers and manufacturer of tampons over the wording of warning and information inserts to go in the packages.

It wants the emphasis on hygienic practice rather than elaboration of statistical risk, which is the bias of similar leaflets for the American market. It has no plans, however, to produce its own consumer education leaflet.

Dr Bob Boyd, deputy-director of Clinical Services, said that no new cases of TSS have been reported in New Zealand, though the disorder has become more prevalent in the United States.

Most recent Health Department investigations show that blood-soaked tampons support bacterial growth, as would be expected, but no one brand is worse than the others.

While there are still some research results to come in, the department stands by its earlier

release: to avoid risk completely, stop using tampons. To reduce risk, change regularly and don't use at night. At any signs of TSS (high temperature, diarrhoea and vomiting) stop using and see a doctor.

What of the market? Bill Templeton, executive director

of Johnson and Johnson which makes products for both external and internal use, reported a "short-lived, minor trend away from tampons". Research done at the time of major interest showed that 90 per cent of women weren't going to change their use of

tampons. Ten per cent were planning to change their pattern of use, or stop using them. (Hillcastle (New Zealand) Ltd, and N M Peyer Ltd, the importers of Tampax and Puresse, reported "irregularities in the market", but no definite trends.

Women in general appear to have made their own "risk-benefit" calculation and concluded that the chance of catching TSS does not outweigh the advantages of the internal tampon, though they may have modified their use in line with the official advice.

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Law

Tension continues between courts and the media

by Jack Hodder

AMONG the most interesting and difficult areas of law are those where public and private interests conflict. One such area is sometimes described (not especially accurately) in terms of a conflict between the "right to know" and the "right to privacy".

Significant restrictions on the "right to know" are spelled out in the House of Lords' reasoning in *British Steel Corporation v Granada Television Ltd*, the Times, November 7 1980. It may be recalled (NBR, June 9) that Granada had been ordered by the English High Court and Court of Appeal to disclose to BSC the identity of the BSC employee who had leaked some 500 confidential documents, some of which Granada had used in a *World in Action* television programme.

In July the House of Lords, the highest English court, dismissed Granada's appeal but reserved its reasons. Then BSC announced that they would not be forcing Granada on the point.

Early in November the "mole", a former BSC records officer responsible for the destruction of confidential documents who had later been made redundant, public and unashamedly confessed. Finally the Law Lords' reasons judgments were delivered.

The leading majority judgment was that of Lord Wilberforce. It was then prefaced with some general observations:

• "Freedom of the press" generally meant freedom to publish without pre-censorship, but subject to the laws relating to libel, official secrets and other recognised inhibitions. If BSC had been able to act in

time, there was no doubt that they could have obtained an injunction preventing Granada from using the confidential documents. On that basis, the BSC claims did not touch on the freedom of the press even at its periphery.

• A "free flow of information" was not a "right" recognised by the law. There was a distinction between the public interest and what is interesting to the public. Insofar as BSC was a publicly-owned body, the legitimate public interest as to information was served by reports to the Minister who was responsible to Parliament.

His Lordship proceeded by reiterating that journalists' claims of legal immunity had never been allowed by the courts. They were in no different position from any other recipients of confidences such as bankers, doctors and priests, but in a quite different position from that of the police who cannot be obliged to reveal the name of informers.

Lord Wilberforce then referred to the "newspaper rule", which in certain cases enables a newspaper to avoid disclosing its source of information until the time of trial. He was emphatic that the rule applied only in the defamation cases and did not apply to BSC's claim which was based on breach of confidence.

He then outlined a limitation on claims such as that made by BSC: the aggrieved person must have a real interest in using the source (as opposed to the news media) such that the interests of justice weighed in favour of his being allowed to proceed rather than in the preservation of the confidence between the source and the media.

Finally, Lord Wilberforce considered whether the discretion of the court should be exercised in favour of BSC or Granada in the particular case. He felt that BSC had suffered a "grievous wrong", that Granada was an active participant, that there had been no disclosure of "inquiry" or misconduct and that BSC should not be denied from proceeding against the source.

That judgment met with a predictable lack of enthusiasm from the British press. Many publications firmly declared that they would stand by their sources notwithstanding the effect of the judgment.

An editorial in *The Times* complained bitterly that the decision would severely inhibit prospective informants and would make for "fewer expo-

sures of wrong-doing, dishonesty and inefficiency in public bodies".

Such arguments are much the same as those embodied in the sole dissenting judgment, that of Lord Salmon. He stressed that BSC was a public corporation, that it was in a peculiar condition, that members of the public did not have the same safeguards as shareholders in a private company in learning of mismanagement or misconduct and that Granada had a moral duty to place such matters before the public.

Lord Salmon went on to observe that the only two cases where the press had been ordered to disclose their sources by English courts involved matters of state security (they were connected with the Vas-

sal spy affair in 1963) and that the "newspaper rule" was not necessarily confined to defamation cases.

In support of his view of the "newspaper rule", Lord Salmon cited Sir Owen Woodhouse's judgment in a Court of Appeal decision given here in June, *Broadcasting Corporation v Alex Harvey Industries (1980) 1 NZLR 163*. In that case, AHI sued the BCNZ in respect of a *Fair Go* television programme, alleging defamation and slander of goods. The Court of Appeal refused to order the BCNZ to disclose its sources prior to the actual trial. (That litigation has since been settled out of court.)

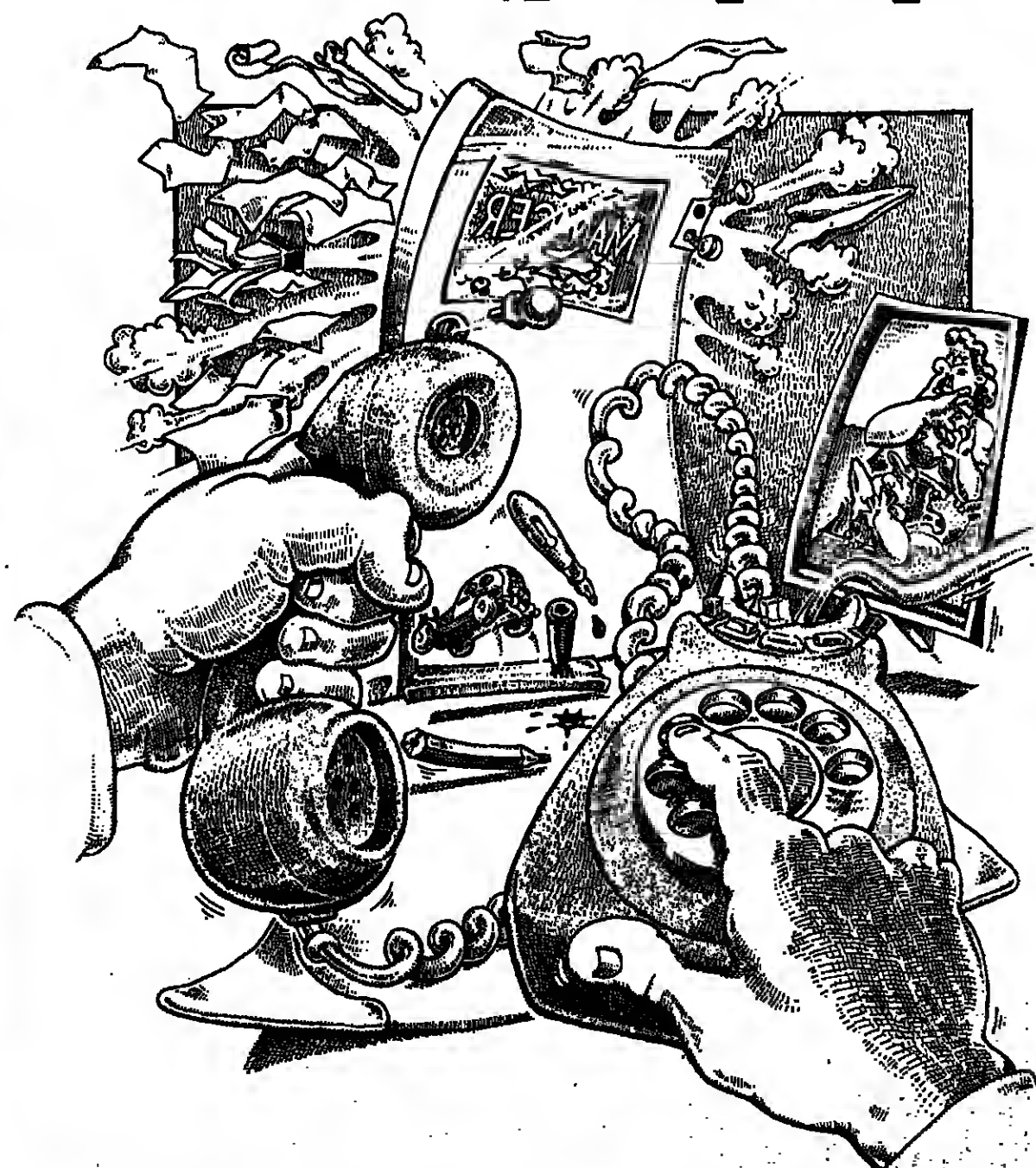
However, the New Zealand decision does not go as far as did Lord Salmon. Although Sir Owen Woodhouse did refuse

to confine the "newspaper rule" to defamation cases, the other two appellate judges merely extended it to a very similar cause of action (slander of goods). Further extensions seem likely to be inhibited by the *Granada* decision.

Thus it seems that Sir Owen Woodhouse's observation, that "potential sources of information should not be discouraged by the distracting thought that their identity could be quickly disclosed in proceedings taken against a newspaper that might never have to face trial itself", may be outweighed in cases of internal leaks by the ruling of the Law Lords (who man New Zealand's highest court, the Privy Council).

The stage seems set for continuing creative tension between "the law" and "the media".

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Government administration

Industry groups welcome IDC restructuring probes

by Allan Parker

THE Government's decision to refer a number of its inter-departmental industry studies to the Industries Development Commission for completion has been expected for some time — and greeted with relieved approval by groups facing restructuring probes.

Leaked industry profiles and interim reports compiled by Trade and Industry officials conducting their own studies have scared the industries and associated parties concerned.

"The ignorance and set positions displayed in those reports — however interim — have caused industries apprehension about the even-handedness with which the studies would be dealt," one industry source told NBR.

"No such imputation has ever been levelled at the IDC," he said.

Another industry insider



Adams-Schnelder... to discuss packaging

said: "At least with the IDC you know you're going to get a fair hearing, in public, and you'll get a fair deal. That wasn't the case with the departmental people."

Certainly, the major embarrassments and difficulties surrounding the industry studies

programme have come from the officials' inquiries.

In particular, the leaked profile paper on the car industry created considerable uproar from elements of the car assembly industry, trade unions and other groups likely to be affected in the Trade and Industry profile had been accepted as a base document.

Another difficulty experienced by industries in dealing with the Trade and Industry overseers has been the turnover of staff handling the probes.

Promotions and re-assignments within the department have meant disjointed handling by officials; industry representatives report being faced not only with new staff, but often staff who have little or no knowledge of the industry they have been instructed to investigate.

By contrast, the Industries Development Commission lit-

vestigations of industries and subsequent reports have been praised behind-the-scenes for their impartiality and reasoned judgements based on public (and some commercially-confidential) evidence which have been open to cross-examination.

The IDC will now take over the investigation into the rubber goods and tyre studies immediately. The motor vehicles and electronics industries will be referred at a later stage.

Those studies will be anxious to ensure that research material already compiled by the officials' investigations, particularly industry profiles, will not be used as accepted data by the IDC; if the industries concerned do not agree with the conclusions.

But the concern will be largely outweighed by the news that the IDC, not the department, will be completing the

studies and making the recommendations.

The timetable for the completion of these studies will need some readjustment, too. The Commission is nearing completion of its examinations into the original list of studies that government asked it to make.

That list draws even nearer to completion with a meeting tomorrow between Trade and Industry Minister Lance Adams-Schnelder, departmental officials and industry representatives to discuss, finally, the IDC's report into the packing industry.

The meeting was due to take place several weeks ago, but industry complaints about the

short notice between receiving the document and the originally scheduled meeting to discuss it with Government caused a delay.

NBR understands that one of the first recommendations of the IDC is the need for a further three studies into separate industries associated with packing.

If this recommendation is accepted, a question of priorities will develop over which of the industries — the referred ones or the new ones — will come under the IDC microscope first.

Whatever the final choice, the Commission is anticipating a busy schedule next year.



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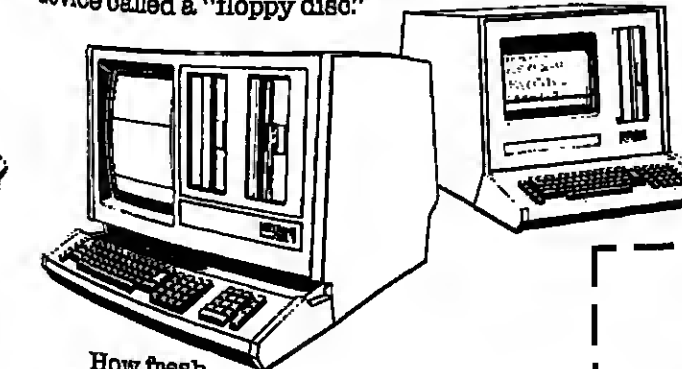
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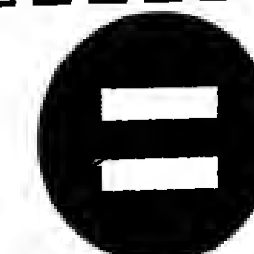
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Resource development

Australian analyst sees consumer-subsidised power

"To lure foreign investors with contracts for cheap power as though giant power stations cost nothing to build, and then to load the capital costs onto existing consumers and state taxpayers, is either a blunder or a fiddle, and all the worse for being shrouded in total secrecy."

That is not the conclusion of another "erring" New Zealand economist's attempt to convince the Government that basic economic theory has something to do with project appraisal.

It is a statement contained in an economic analysis of electricity pricing for power to two new smelters and an extension to another in the Hunter Valley, New South Wales.

The report was prepared by Dr Howard Dick, an economist at the University of Newcastle. It is due to be published this month.

Largely concerned with the price of electricity to aluminium smelters, it parallels many of the contentious findings in the appraisal of the New Zealand situation by Otago economist Professor Paul van Moeseke.

There are similarities between the development of the three Hunter Valley smelters and the proposed second New Zealand smelter. The major one is that the electricity required for smelting does not already exist as surplus to requirements, so

development costs for extra units becomes significant.

In the Australian case, Dick says that to service the three smelters (with a total production of 596,000 tons a year) will take half a giant power station of about 2640 MW capacity.

Like New Zealand, secrecy has been a problem. But Eleoni, the power authority servicing the Hunter Valley region, is reportedly charging even less than the 1.2c a unit mentioned in the State Parliament. Dick, nevertheless, uses the 1.2c figure for his calculations.

On that basis, his analysis shows, local consumers and taxpayers will be involved in subsidies of some \$126 million a year.

Dick arrives at the subsidy by applying a basic long-run marginal cost technique (a methodology which Energy Minister Bill Birch and van Moeseke agree should be used in New Zealand).

The 1980 *Energy Plan* states the principle of long-run marginal cost "is the logical basis for pricing policy", although there is a hint it may not be entirely understood, since the comment is prefaced by the statement that this "recovers the true cost to the nation of energy supply". In general this is not normally the case.

The crucial point in this theory is a simple one, that a resource should be charged at its market value and not merely at the cost of production, or cost

of production plus a profit margin less than the potential market value.

Dick has a simpler job than van Moeseke because the Australian electricity is produced from coal, for which there is a thriving export demand.

The coal to be delivered to power stations serving the three smelters is to be sold at close to a \$16 a ton below its current export value (specifically, the export price less loading and transport charges).

"The difference of \$16 between what the coal is worth and what Eleoni charges as the average cost of production is a subsidy to consumers of electricity," Dick says.

Further, the aluminium companies will export most of their production, which effectively means they are exporting

coal at \$10.30 a ton rather than the current rate of \$26.

The subsidy for the 3.8 million tons of coal required amounts to \$60 million a year.

The opportunity cost lost to consumers (or the value they have to give up to sell cheap coal to the power companies for the smelters), is \$16 a ton. In short, instead of selling power at the real long-run marginal cost (which in the case of coal is the same as the opportunity cost of exporting it), Eleoni sells it at production cost.

New Zealand's case is different; you cannot export the raw material directly (water or hydro power). But the principle remains: What does it cost us to produce the marginal, or extra, power units just for a smelter?

Two considerations are important. First, what is the opportunity cost of our resource?

That is, what could we sell it for to other projects?

But at a more basic level is the question of production costs for new power to service a smelter, or any alternative project. If the opportunity cost is lower than the production cost, the project makes little economic sense.

New Zealand is moving to sell power to a smelter consortium for about 1.7c a unit, at least 50 per cent less than the current cost of production. Thus, we do not appear to be getting even the cost, let alone the value, of the resource.

And the 50 per cent subsidy on cost alone takes no account of additional subsidies in the form of regional and export incentives, and publicly financed infrastructure costs such as roading, water, harbour facilities, and so on.

But this accounts only for the

cost of producing power. Dick's paper then discusses the cost of developing the generating capacity.

It reiterates another principle fundamental to van Moeseke's report, that if capacity is developed for a smelter alone, the smelter should pay the full cost of development, since nobody else benefits from it.

Again like New Zealand, Dick states that new generating capacity must be rushed in time to meet contracts with the aluminium companies.

Construction of a 2640 MW coal-fired power station will cost \$1000 million, and at current interest rates of 12.9 per cent "it would certainly not be economic to build these new stations in order to supply power to the existing grid", Dick says.

"The only justification for

Resource development

lure as 'either a blunder or a fiddle'

building them is to meet additional demands. The companies which account for this additional demand should therefore bear the higher total costs."

In fact, like New Zealand Government, Eleoni is going to charge the capital cost to other electricity consumers.

Dick calculates the aluminium companies' share of total development costs for power development at \$85 million a year.

"The \$85 million annual capital charge which should be allocated to the aluminium companies would absorb almost the entire annual revenue which Eleoni is likely to receive from them for electricity supply," he says.

So accounting for earnings foregone in selling power cheap, and capital charges for power development not made,

the subsidy other consumers pay is \$126 million a year.

Dick uses the same methodology as van Moeseke, but van Moeseke's total subsidy against New Zealand consumers for additional smelting capacity of 300,000 tonnes a year is higher at about \$130 million because of the much greater cost of developing and supplying hydro power.

The subsidy must inevitably be reflected in increased power charges to other users. But part of it, that which is occupied in foregone earnings that would be made if the resource was sold at its real value, of course does not appear (in the balance sheet) to come out of anyone's pocket.

This part is reflected in indirect costs, such as lower incomes and higher taxes, to make up the loss in revenues.

One of the prime areas used

to justify such projects is employment opportunities.

Dick states that "the \$2000 million to be invested in three smelters and half a giant power station will create about 2500 permanent jobs at an outlay of about \$3-\$4 million each".

"In the case of the Tomago smelter, the annual wage bill has been estimated at \$15 million for 400 employees. If the same average wage of \$20,000 is applied to employment in the other two smelters, and half a power station, the total wage bill amounts to \$50 million," Dick says.

"The annual subsidy from the state government for electricity alone will be more than twice this amount. For every \$20,000 paid out in wages, the aluminium companies will be receiving a power subsidy of \$50,000."

"But the situation is even

worse than these figures suggest. Because of the acute shortage of trained people, many of these jobs will be filled from overseas. Many others will involve the poaching of skilled labour from established local industries which cannot afford to pay such high wages."

"It would be virtually impossible to design a job creation scheme which, for such a massive outlay of both private and public funds, did so little for the young and unskilled who constitute the larger proportion of those presently unemployed."

Dick's assessment is the same as that reached by the Labour Party in New Zealand. Labour leader Bill Rowling said in June 1979 recently the channelling of investment almost exclusively into major projects will make an already "disastrous" unemployment

problem "absolutely catastrophic".

Dick acknowledges the multiplier effect during construction phases of the smelter improves the position. But he claims a rosier picture cannot be seen in isolation, and must be compared to the effect if job creation capital was to be invested in other ways.

"Yet so far the Government has offered no alternative investment programme to aluminium smelters and power stations."

The rather disastrous developing situation can at least be remedied in the Australian context.

Dick argues that, given the lack of cheap power blocks available internationally for smelters, Australia's stable political climate and its bauxite resources, the companies would still be getting a bargain if electricity was sold at the realistic rate of 2.75c a unit.

He says the fact that electricity has been sold cheaper than it need be to attract aluminium companies is "the ultimate indictment".

"Yet state governments in Australia continue to boast that it is good government to give away the nation's resources, and stubbornly resist any efforts by the federal government to uphold the national interest."

"Few Third World governments are quite so naïve in dealing with foreign multinationals," Dick says.

In addition he advocates taxation policies designed to maximise the proportion of revenue retained in Australia.

"Unfortunately the aluminium companies have as much skill as the multinational oil companies in setting transfer prices to various subsidiaries to minimise the payment of tax in the host country."

New Zealand is less fortunate. Its power is much more expensive and it has none of the raw materials used in the process. Alumina, unlike Australia, is a massive addition to the import bill.

And the CSR-Alusuisse-Fletchers make-up of the consortium provides the potential to set transfer prices at all stages of production.

Even political stability is now questionable, since Rowling has stated a 1981 Labour Government would be prepared to stop the project or at least re-negotiate an unfavourable contract.

Van Moeseke told *NBR* the Dick analysis, confirmed the view in his report that new Australian smelters are only marginally viable if they pay the full cost of electricity, which is up to 2c less than the cost of electricity in New Zealand.

In addition, he said, leading European metal analysts are now projecting that the huge supply capacity planned for Australia, tied to crises in the car and aircraft industries, may create an opportunity and thus price drop in real terms later in the 1980s.

"Long-run market projections by European metal analysts cast serious doubts on the magnitude of current Australian smelter plans, some of which may have to be scrapped," van Moeseke said.

"A second New Zealand smelter is submarginal *vis-à-vis* Australian ones, mainly because it has to import alumina, which Australia produces, at a cost of over \$90 million in foreign exchange annually, and because our long-run marginal electricity cost is up to 2c more expensive, a difference of some \$60 million a year for a 200,000 tonne smelter."

The metal analyst's projections are, for now, being ignored, as aluminium companies seek to tie up cheap blocks of power in the rapidly dwindling list of countries still prepared to enter into such contracts. In short, the huge increase in capacity either planned or under way, appears to be a result of competition for those few power blocks, and not necessarily in response to projected market demand.

The result in Australia and New Zealand is the same; unseemly haste, carried out in secret with golden promises of jobs for the growing unemployed, consumer wealth and network of downstream industries.

Dick states that in New South Wales, approvals for smelter projects "are being rushed through without proper economic analysis. There is good cause for apprehension".

"In few Third World countries could such a massive development programme be pushed with so little vital information and so little debate," he maintains.

His analysis of electricity pricing to the three Hunter Valley projects in the more favourable Australian climate should be food for thought, with its obvious disturbing ramifications for any increased smelter capacity in New Zealand.

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Management

Business tries to cut travel costs

by Allan Parker

THE HIGH cost of inter-city travel within New Zealand is having a marked effect on the business community as it tries to reduce or cut costs.

Travel agents, airlines, rental car firms and other organisations involved in business travel — a mainstay of the travel trade — report falling trade, fewer overnight stays and a search for cheaper accommodation.

At the same time, management faced with extensive executive and marketing travel costs are making increasing use of the variety of preferential and bulk-rate discount schemes offered by travel organisations like Air New Zealand, hotel chains and car-hire firms.

And, in some circles, there is a growing preference for the use of inter-city conference calls and telex messages in instances where face-to-face meetings are not vital.

The reasons are not hard to find. The cost of a city-to-city business trip involving an overnight stay and client or company entertainment has skyrocketed in the last 12-18 months.

Typically, such a trip between Auckland and Wellington might now cost:

Taxi to airport:	\$
Return airfare:	10
Rental car:	140
Accommodation in major hotel:	30
Restaurant lunch for three:	65
Evening dinner for four:	60
Taxi to office:	120
Total:	433

Add to that the cost of an executive's time and the total package becomes daunting for all but the richest companies and Government departments.

The effects of the business community's turn-off is being felt through most aspects of the travel business.

Hertz managing director Ian Jamieson, for example, notes "a certain slow-down in business hiring".

Companies still using hire

Hotel	Single	Twin
Intercontinental	\$	\$
Vacation (ax-Logan Park)	66	70
Travelodge	57	60
South Pacific	56	62
Town House	55	65

cars have noticeably shifted away from previously-popular six-cylinder models to the economy size. He sees the trend as one link in the nationwide effort to arrest costs.

Air New Zealand, too, has noticed a slackening in trade. Ian White, regional director (New Zealand), says the total market has fallen "probably 7 per cent" in the last three months.

While maintaining that the largest fall-off has been in the private holidaymaker sector, White agrees that "most of our client companies are observing normal business prudence in keeping their travel needs as low as possible".

Trunk route services — the major centre links — are still well-paragonised by the businessman, according to White. Hotels are also feeling the pinch. Alex Melbourne, national sales manager for the Travelodge group, says there has been a "softening" in the commercial market over the last six to eight months.

While this fall-off has not reached the alarming stage, the group is concerned. Melbourne told NBR. (Curiously, Lion Breweries public relations manager Des Fitzgerald, whose company runs the South Pacific Hotel chain, was the only travel trade source NBR spoke to who reported no fall-off in business.)

Again, the reason is not hard to find. Some sample overnight costs at major Auckland hotels at the end of August are shown here.

Wellington rates are not much lower.

Increased competition by the provision of more trip-rate accommodation does not offer much salvation. One industry estimate suggested that the retail rate for a new hotel room would be as high as \$80 a night.

These rates, as with the retail rates offered by other sectors of the travel trade, are, of course, for the walk-in traveller.

To overcome these high rates, more companies than ever are taking advantage of the preferential and bulk-volume discounts offered to companies and organisations whose representatives travel frequently.

Travel trade groups report increased use of these discount rates as the business community looks to ways of reducing the high cost of sending an executive to another centre.

(One travel agent, however, said some companies are no longer using the discount rates offered by Air New Zealand because the scheme operates on a credit account basis; those companies argue that the 5 per cent saving is just not enough compared with the money to be earned on the interest margin instead.)

Discount rates are certainly one avenue for reducing costs. But companies and organisations are finding many more.

Some, for example, are cutting out overnight stops where ever possible. The travelling executive is expected to complete the business on the same day and return to home base without overnighing. A limitation to this is flight schedules which may not suit the traveller's timetable.

Others are reducing week-long visits to another centre to one, two or three days. Yet others are making one visit a month instead of two.

Greater use of the telephone for inter-city contact that does not absolutely require a face-to-face meeting is becoming more common, too.

The New Zealand Manufacturers' Federation, for example, has held a number of conference-call meetings between district association

directors in the four main centres. Estimated costs: \$100 — less than one return Auckland-Wellington airfare. The savings: airfares, airport-city transport and meals for three directors.

The Federation's executive are among a growing number of frequent travellers looking at alternative accommodation.

Federation and associated trade group executive officers now stay at Auckland's Commercial Traveller's Club when overnighing in the Queen City.

For a \$100 membership fee and \$50 a year, travellers can use one of the club's 21 motel units for \$22 a night single or \$25 double. They also have use of the club's other facilities including conference rooms, bars and a licensed restaurant.

Auckland C1 club general manager Peter Wahlstrom reports a 95-98 per cent occupancy rate midweek and an overall weekly average of 80 per cent.

Wellington's new Commercial Traveller's Club premises are still under construction but the club is already getting keen interest from members about room availability and rates.

Staff of the Development Finance Corporation now use an Auckland inner-city motel in which the corporation has project finance.

Businesses throughout New Zealand are feeling the travelling cost pinch and looking more than ever at cost-cutting exercises.

But not all will insist their staff travel the way one Wellington businessman does when he visits Auckland.

He drives up the North Island, making calls on the way. At the end of the business day he visits bars in the city, takes in an 8 pm film then visits a sauna where he uses the facilities to wash himself and his laundry.

A quiet beach and the back seat of the car provide the night's sleep in preparation for the next day's business.

Terex takeover boosts franchise holder's business

by Rae Mazengarb

THE takeover of General Motors Terex Division by the German IBH company will provide a much needed boost to local Terex franchise holder Clyde Group Ltd.

It will give Clyde access to a wider product range, particularly light industrial equipment, and because the equipment will be manufactured world-wide, a greater currency flexibility should follow, managing director Alan Sinclair told NBR.

Terex executive W J Kienapple — who becomes vice-

president of sales (Far East and Pacific) for Terex Corporation — was recently here to acquaint Clyde executives with information on the merger — to take effect from January 1 — and its future implications.

IBH Group is the world's fourth largest construction equipment manufacturer. Founded in 1975, it is projecting a 1981 turnover figure of \$1.3 billion.

But the benefits from the takeover will not accrue immediately to Clyde, which has suffered sluggish progress with plummeting profits and falling

sales in the last year because of the downturn in the construction industry.

Sinclair estimates it will be two years before consolidation in IBH is achieved and the effects of the move are felt here.

But with access to the new range of more adaptable equipment, Clyde could move into areas where it has not previously been able to compete, such as forestry, he said.

The international developments come at a time when Clyde has embarked on its own restructuring plan, which includes the merging of sub-

sidaries Clyde Industries (NZ) Ltd and Engines Transmissions Ltd.

The reorganisation has meant some redundancies and at least 12 more jobs are expected to be lost this month.

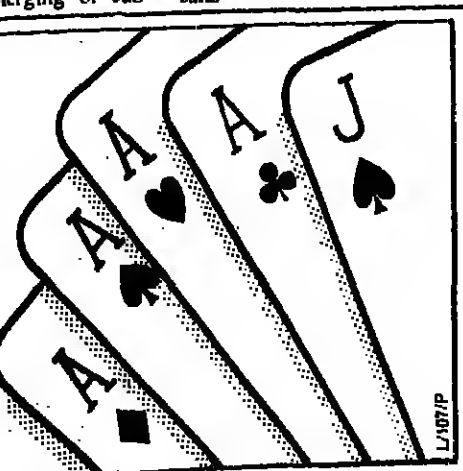
Another subsidiary, Atlas Steels (NZ) Ltd, ceased trading earlier in the year and assets were sold to Southward Engineering Co Ltd.

While these developments have the hallmarks of retrenchment, the company does not see them that way. Rather, the plan is to reposition the company for growth, Sinclair said.

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Economic restructuring

As politicians excite themselves with 'more market'

by Colin James

WHILE many politicians and economists excite themselves with versions of the "more market" approach, one towering figure in the economic world remains loftily unimpressed: John Kenneth Galbraith.

Galbraith remains unrepentantly interventionist — on the simple ground that in half the economy the market does not and cannot exist. It has been replaced by large corporations and unions which determine their own incomes.

He crystallised this theory in the early 1970s — the end of the great "liberal" era, to use the American coinage of the word, begun in the 1930s (with the New Deal in the United States and the Labour Government in New Zealand).

And he argues that the evidence since that time has supported, not undermined, his theory. In particular, he argues that reliance on indirect monetary and fiscal measures has been found wanting and has led only to a combination of inflation and unemployment — in his view, inevitably so.

GALBRAITH: The *bona fide* left has not dealt as seriously as we should with the problem of the large organisation, public or private.

I think it is quite clear that large organisations have an ageing problem, whether they are in Washington or Detroit and this is a problem which, especially as regards the large public bureaucracy, we have been negligent on.

The left in the United States, as in Britain, as in Canada, as elsewhere, has been reluctant to tackle the problems posed by strong corporations and strong trade unions and the wage-price spiral.

It is, also, perhaps inevitable that after a period of energetic concern for job safety, the environment, conservation, we would have some reaction. That has happened in the past and we should not be surprised at it happening at present.

But I don't think anyone should doubt what the meaning of the election here, last Tuesday as we speak ... it was far less a Reagan victory than a Democratic defeat.

Harry Truman once said that whenever the people of the United States have to choose between real Republicans and imitation Republicans they will always choose the real Republicans. We have had a very conservative economic policy in the last four years, with heavy reliance on monetary policy.

Paul Volcker (chairman of the Federal Reserve Board) is a modest disciple of Professor Milton Friedman and while one tries to control the economy by monetary policy in the face of strong unions and in the face of strong corporations, one doesn't get stable prices and high employment, one gets high unemployment and continuing inflation.

It was the genius of Jimmy Carter's economists that they managed in the month of the election to combine a severe recession with severe inflation, with a severe slump in the housing industry. No one will ever accuse them of being political in their economic policy.

NBR: As you criticised Richard Nixon for doing in 1972.

Richard Nixon was criticised for policies that brought inflation and unemployment both down to a less than 5 per cent rate in their respective calculations. And there's no doubt in my mind that he was a much shrewder politician than Carter's advisors.

Gerald Ford in 1976 listened to his conservative economic advisers, including William Simon and Alan Greenspan and his fate was the same as

"The market," he wrote in a recent book, *Almost Everyone's Guide to Economics*, "is an admirable vision which appeals greatly to economists with a secure income and tenure."

"But every person in real life seeks, above all, to get some control of his own income."

"The most obvious way (to get that control) is to be big in your market. Another is to have a union. Another is to get the Government to protect you from the market with a minimum wage ... or to fix your minimum farm prices."

And again: "Milton Friedman has a vision of an economy that is made up of competitive firms ruled by the market ..."

"Monetary restriction doesn't stop the people who have escaped the discipline of the market and got control of their prices and incomes from shoving up those prices and incomes."

"They are stopped only when there is a lot of unemployment. Meanwhile, it does work, in a rather punishing way, for those who are still subject to the market." The same goes, he wrote, for fiscal policy.

And on deregulation, perhaps the more marketeers' strongest line: "Some of the talk of deregulation comes from my fellow economists, who are persuaded this might save the market. There is room for a touch of romance, even in economics ..."

"There will, of course, be no general deregulation and the market will not be redeemed ..."

"Where economic affairs were once regulated by the market, they are now extensively the product of the bargaining between interest groups under the aegis of the government."

Galbraith is sceptical also of any interpretation that the Reagan victory in the United States presidential election is evidence of a swing to the right, as he indicated in an interview shortly after the election.

Rather, he saw it as an indicative of the failure of the left adequately to come to grips with the implications of the large organisations which dominate the modern economy. He put it this way:

You don't see as a possibility that these measures could lead to increased inflation temporarily and eventually lead to a more stable economy? That's the theory that lies behind Margaret Thatcher and of which one will hear much more in this country — that you can have a cleansing effect from a severe monetary policy.

Nothing is more important than that one be suspicious of these metaphors. The notion that there is some purification in hardship does not stand examination.

I wrote a piece a few months ago saying how good it was that Mrs. Thatcher was giving Professor Friedman's policies a thorough try. They needed to be tried out in practice.

And I said that we should be warned against the course which is that another six months of hardship will always produce the results that are sought; will always bring inflation and unemployment to an end. And I think now we should be wary of that argument in the United States.

Do you sense then that the next four years may see the discrediting of those policies?

Well, as I say, this is the extreme. I told you what I thought the weaknesses were on the liberal left. It was that we went too far in that direction and managed to contrive this interesting combination of recession, inflation and housing slump. Now there is a very good chance that the right will try to do the same thing in spades.

That's why I see the long-run likelihood of the kind of pragmatic liberalism that we have had in the past, which has to include firm restraints on wages and prices directly by the Government because that is the only alternative to controlling inflation by unemployment.

You wrote in one of your earlier books — I think it was *American Capitalism* — about the theory of countervailing power. You don't see the big blocks as providing *ipso facto* controls on inflation?

Churchill once said that he had often had to eat his words and often they were on the whole a very wholesome diet. Countervailing power does not work under conditions of inflation. It worked admirably during the Depression. And I was more, than a little influenced by that experience when I wrote that book in 1952.

Does the adversarial process, then, necessarily lead to inflation? Yes. At any time of full employment, the adversarial process can be accom-

plished by monetary and fiscal policy, which is, of course, impossible.

Is that the unifying point of otherwise disparate beliefs? There is a certain unification in being in power.

What do you see, then, as the likely outcome of the Reagan policies if the Administration attempts to follow those policies?

Everyone should be cautious about predictions and I would say that as he will abandon controls, even the limited controls we have, that the outlook is either for more inflation or inflation controlled by severe unemployment. This is the weakness of the alternative that he offers.



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Jimmy Carter's but not quite so had because the recession was not quite so bad. I consider the economic influence here to be far more powerful than that of the Moral Majority.

You mean a negative reaction to inflation and unemployment rather than a positive thrust by what you might term the affluent society?

A negative reaction to inflation and recession was far more important than a positive reaction to God.

Having said that, I don't again want to simplify matters. I would remind once again that those of us who consider ourselves on the liberal left have been negligent on the problems of the large organisations.

And also the conservatives are the natural beneficiaries in the United States of affluence. As people become better off, they're bound to be less angry. We've seen this over the last 150 years.

The voice of Marx has diminished in the capitalist countries not because people suddenly stopped reading him but because, and under the conditions of working class affluence, he became irrelevant.

So we shouldn't be surprised if countries become somewhat more cautious and conservative as they get richer. It has been noticed even, I believe, in New Zealand.

Do you then see the evolution of a more or less permanent governing conservative majority over a pe-

riod of time in the United States? Not yet, because we still have a strong liberal-left tradition. We still have social problems far beyond those of New Zealand: the cities, the minorities, the urban poor. And we have had the specific failures of the liberal left that I mentioned, that one can only hope will one day be corrected.

There is also the peculiar weakness of the right in this country which we'll see in the months and years ahead. It is divided between the people who accept the twentieth century and the people who have a romantic commitment to the eighteenth century and in some cases to Genghis Khan.

And so they're going to be afflicted with the notion that everything can be accom-

Economic restructuring

approach, Galbraith remains loftily unimpressed

process leads to inflation. And as proof of the fact that in the countries which have a mechanism of control — the German Federal Republic, the Austrians — they have avoided it.

It has also perhaps some meaning that these are the countries where liberal and social democratic policies are fairly secure.

I would have said that they have a corporate attitude, that there is an agreement on the ground rules between the Government and the unions and the corporation on a sort of band within which wages should rise. That's right. That wages will be held within what can be afforded out of the existing prices. This is broadly the social market policy.

Which is what you say you would like to see introduced here? Which I say is inevitable here.

I was going to ask you, is it inevitable that the big blocks — the corporations, the unions and the Government — go on getting bigger? I see no chance that the thrust to organisation — larger corporations, unions wherever one has large corporations, farm organisations, Opec — will be reversed.

You don't see a potential for that reversal in automation and the developing communications technology? As automation or decentralisation? I may have some effect on the trend, but it will certainly not reverse it. The invasion of the market by organisation is one of the great facts of our time and I don't think it is going to be altered.

Is the displacement of the market yet? Let me just say the invasion of the market. The market still exists. There are no absolutes in economics.

But that 1000 large corporations now produce two-thirds of the private product in the United States, that the state, the Government, produces somewhere in the nature of a third of the total product, farmers control their prices through the Government and will continue to do so, that trade unions will continue, that Opec will continue I have no doubt in the world.

This seems to me the only practical judgment one can render.

Therefore, if those organisations continue to exist, I see no alternative to some apparatus of restraint. If I had to cite one of the serious weaknesses with which Reagan starts his presidency, it is the large number of people he has around him whose vision of the economy is that of Adam Smith in 1776.

Is there a likelihood, then, of an imbalance between those three blocks you describe? Is it necessary for those three to be more or less of equal strength?

Oh, no. The economy, we have learned can stand much greater imbalances than we ever imagined. There should be no expectation of refinement of this process.

We do not need to understand, though, the longer-term



John K. Galbraith... "atlas should be paramount"



Milton Friedman... theories given a try



Paul Volcker... modest disciple

dynamics of large organisation. I mentioned earlier the tendency to age, which I think we are seeing in a very clear form in Britain, the United States, France and Germany, as they contend with the younger organisations of Japan, Korea, Singapore, Hong Kong.

We are also seeing that modern socialism doesn't come from socialists. Nobody should be afraid of socialism of alleged leftists like Galbraith.

We're seeing that modern socialism comes because large corporations can no longer be allowed to fail. So Chrysler, Lockheed, Eastern Railroad, British Leyland, the steel industry in northern France, all the numerous enterprises in IRI in Italy, all are the failed children of capitalism.

Socialism now comes from the head of the National City Bank — or the Citibank, to use its modern name — and of Chase Manhattan, who say that the last recourse is Washington. They have some thought for their own lendings, surely.

Have there been distortions to the interventionist role of the state? Certainly.

Which ones would you single out as the most important? Well, there certainly has been an undue response in the United States to the pleading of special interests. Highly organised groups in Washington get an attention for in advance of those of the faceless and voiceless groups.

This is something that is not going to change under Ronald Reagan, because it is already true that the express needs of a few downtown bankers in New York are heard with far more decibels than all of the people in the South Bronx. And they will be heard with even louder sounds from now on.

That leads me almost to the next question. You talk in one of your essays about sovereignty. You say that the people do not have sovereignty in the marketplace or in the political arena. Where does sovereignty lie? I would say sovereignty, to the extent that it exists, lies in the complex interaction of organisations.

Everybody, nowadays surrenders part of his personality to an organisation. The surrender in the case of an executive of a large corporation is very complete.

He never speaks his mind except when he puts it off the record. All journalists know that. He expresses the view of the company.

So in the large bureaucracy, I always had a reputation, when I

That's right.

In other words, it lies nowhere.

Then the role of the state vis-a-vis the corporations and the unions, is that in your view desirably a controlling role or is it a haphazard role?

It is a restraint. There is a contradiction here, which I have never denied.

Corporations have great power in the state, trade unions have great power in the state, farm organisations have great power in the state and we turn around then and ask the state to control them.

Well, this is going to be at best a very imperfect control. But it is only if we recognise that relationship, if only it is part of our public perception, that we have any chance of doing it at all.

If we fail to do it and imagine that we can accomplish this restraint of prices driving up wages, wages driving up prices, farmers shoving up their prices by a return to some formula appropriate to the market of Adam Smith, the result will still be much worse.

You're suggesting a circular arrangement whereby the ...

No. I am saying the problem is resolved in the juxtaposition of great organisations.

You then reject the corporate state approach, the Japanese approach in which there is a very close relationship between industry and MITI (the Ministry of International Trade and Industry).

Well, there is an inevitable relationship between the state and the corporations but I am still prepared to argue that the state should be paramount.

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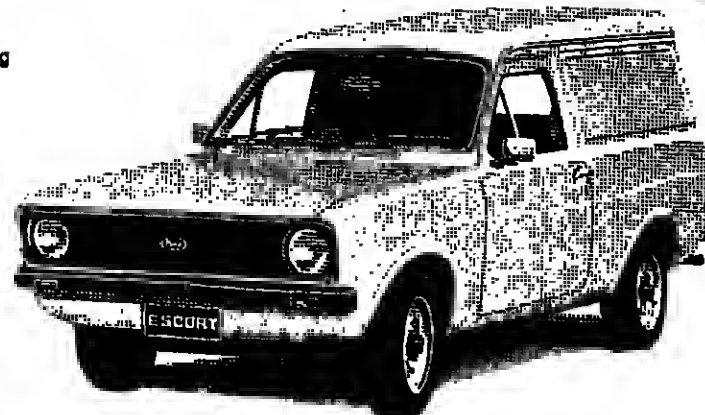
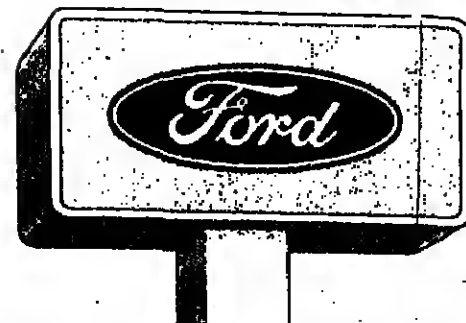
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The British

Thatcher's money experiment drifts off course

by John Bishop

MARGARET Thatcher's bold monetarist experiment is in danger of collapse as her ministers face the sternest test yet of their political nerves.

Latest figures show that the growth of the money supply is twice that of the Government's target and also that Government spending is running well over the budgeted level.

The combination of a tight money policy failing to meet its targets and the need to implement promised spending outlays ministers in a double bind as they begin their autumn review of Government programmes this month.

The Chancellor of the Exchequer, Sir Geoffrey Howe, told a House of Commons committee that the underlying rise in the money supply since February was twice what the Government wanted.

In a white paper published along with the Budget in February, the Government declared its intention of allowing the money supply to increase by between 7 and 11 per cent in 1980/81.

Howe has now admitted that this target is unlikely to be met. Latest Treasury figures show sterling M3—the measure of money used by the monetarists—is growing by 1 per cent a month or 19 per cent on an annual basis after allowing for seasonal and technical adjustments.

Yet Howe stuck to the view that "there was no case for changing basic strategy".

Failing to meet its own monetary targets is only one part of the Government's problem. Further Treasury figures revealed another problem: the Government was overspending its Budget by nearly £1500 million.

Thatcher is pledged by the Conservative Party manifesto to cut Government spending by £1500 million each year of her administration as part of her campaign to reduce the burden of Government.

At the same time, the Tories are committed both by their manifesto and by promises to New allies to increase defence spending by 3 per cent a year in real terms for the next three years.

The rising cost of unemployment and falling tax revenue compound the difficulty of how to divide up a shrinking Government cake.

The Government braved the political storm arising out of confidential Treasury letters suggesting cuts in the defence vote being leaked to the press. But the price was reaffirming the manifesto promise.

Ministers, if they are to stick to their guns in cutting expenditure, must now reduce this year's total by £1500 million, as well as finding another

£1500 million to cut in 1981/82. At the same time defence spending must increase.

Nor can taxes be raised to meet the shortfall, not on personal or company incomes anyway, without breaking a manifesto commitment.

It is an article of monetarist faith in Britain that the amount of borrowing by the public sector is the principal cause of inflation, high interest rates, and a depressed private sector. The practice of the State creating money without the goods and services to back it must be halted, the Tory monetarists declared.

Here too the Government has exceeded its own targets.

By reducing the size of government activity and imposing tight restrictions on nationalised industries' demand for money, Thatcher and her advisors believe the private sector will be stimulated and interest rates eventually fall.

Real wage increases are to be matched to increases in productivity and limited in total to what the country can afford. The determination of what the country can afford, under monetarism, is the same as determining the increase in the money supply.

The principal method of achieving growth in productivity is the tight money policy, which, in the short term at least, has resulted in falling profits, rising unemployment, high interest rates and a strong pound.

Consistent with the target of a 7-11 per cent increase in the money supply this year, was a planned growth in Government expenditure of between 6 per cent and 10 per cent.

But the Treasury is now forecasting an over-run in Government borrowing of £2000 million—nearly 25 per cent up on the Budget figure.

The heavy demands of nationalised industries for capital to re-tool and reorganise has pushed estimates of the Public Sector Borrowing Requirement (PSBR) for 1981/82 to £12000 million (£8400 million this year).

For the Thatcherites accepting such a figure would represent a major betrayal of their objective of releasing funds used by the State sector for productive investment by the private sector.

Restricting nationalised industries even to this year's cash limits would represent a retreat from the monetary targets.

But to slash existing spending by the £3.5 to 4 billion needed to meet the monetary targets would clearly cause more industrial and social hardship.

Already the Confederation of British Industry (CBI) representing almost all levels of business has issued its gloomiest forecast ever.

The CBI report casts doubt on the revelation of the Government's financial policy which is already attracting open criticism from within the Conservative Party's own ranks.

The report reveals 360,000 jobs lost in major industries in the last eight months, and states that 70 per cent of the firms surveyed expect to shed more labour by January.

Even more depressing for the Government was the revelation that 84 per cent of businesses were operating below capacity. Less than one in six were



Margaret Thatcher determined to keep within budget

planning to invest in new plant or equipment over the next year.

Armed with these statistics, the CBI is arguing that some modest relaxation is now in order, notably by lowering the bank rate (currently 10 per

cent) and therefore reducing the value of sterling, by discouraging the inflow of foreign money.

Howe ruled this out emphatically—"it would be total folly to abandon the present policies when they are beginning to produce results", he told the Commons.

But Thatcher's critics within the party are not convinced. Former Tory leader Edward Heath is one of the leading opponents of monetarism.

In his view: "It can't be right that we see small businesses built up by hard work over generations now being forced into bankruptcy."

Another Heath Cabinet Minister, Geoffrey Rippon, now on the back benches, invokes a Social Credit appeal: "We are in danger of creating a society in which money lending is the only profitable venture."

Sir Terence Rickett, direc-

tor general of the CBI, asked rhetorically: "Have we got to go through the next three or four years destroying great tracts of British industry to convince the world that sterling is overvalued?"

Thatcher's reply was that the Government was determined to keep within the announced totals for expenditure, borrowing and on the timetable for reductions.

Rippon warned against what he called "monetary madness". "The Cabinet knows where it started. It knows where it hopes to go—but you can't go blindly along regardless of deteriorating road conditions," he said.

"We ought not at this stage to be cutting public spending that is creating wealth and maintaining jobs," he said.

That refers principally to nationalised industries like British Leyland, British Steel

and British Aerospace.

The Cabinet is now faced with unpalatable alternatives. Failure to stick to the existing policy—whatever the cost—will be a major defeat for Thatcher who has staked her leadership on her economic policies.

It would also give major encouragement to the Labour Party and the unions among others who have repeatedly called for a "U-turn" in Government policies.

Yet to stick to the guidelines originally formulated—in effect slashing spending across the board and squeezing industry to the limit—invites further social and industrial disruption.

Whichever way the Cabinet chooses to go will have an important influence on the future of the Thatcher Government and the success of its monetarist experiment.

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